THE EFFICACY OF DEPARTMENT OF DEFENSE POLICIES AND ACTIONS IN LESSENING THE UNITED STATES INTERNATIONAL BALANCE OF PAYMENTS PROBLEM

THOMAS E. KILLEBREW

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by

Thomas E. Killebrew
Lieutenant Commander, Supply Corps, U. S. Navy

Bachelor of Science
1950
The Ohio State University

A thesis submitted to the Faculty of the School of Government, Business, and International Affairs of The George Washington University in partial satisfaction of the requirements for the degree of Master of Business Administration.

June 5, 1963

Thesis directed by
Arlin Rex Johnson, Ph. D.
Professor of Business Administration

PREFACE

The purpose of this study is to permit a determination of whether actions taken by the Department of Defense can hope materially to alleviate the serious international balance of payments problem which the United States faces. In order to do this it was necessary, first, to study briefly the substance of what the balance of payments problem is, combined with the interrelated gold flow problem, and then, to analyze the broad spectrum of actions which the Department of Defense has taken and plans to take in the future.

In making the study, the author found the advice and assistance of various individuals in the Balance of Payments Division, Budget Directorate, Department of Defense, and in the Office of Business Economics, Department of Commerce, to be invaluable. Also, many statistics compiled by these two offices were fundamental to this study, but the use of a fiscal year by the Department of Defense versus the use of a calendar year by the Department of Commerce caused problems of reconciliation which were sometimes insurmountable. Different categorizations and combinations of items contributing to the balance of payments also caused some difficult problems of analysis.

The author had hoped that a complete breakdown of Defense expenditures overseas during calendar year 1962 would be available prior to completion of the study. As of this writing, however, availability of complete statistics in the Defense area are still at least several weeks in the future. This necessitated the use of summary figures only for 1962.

Another problem encountered in the preparation of this study was the security classifications applicable to many phases of military overseas expenditures, both as to statistics and as to future plans. Overseas expenditures are inextricably tied to force levels, establishment and abolishment of bases, etc., factors which are politically and strategically extremely sensitive. A degree of generalization occasionally permitted this difficulty to be by-passed.

Thanks must be given to Dr. A. Rex Johnson for his guidance, and to my wife for her encouragement. Both were essential.

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THE BALANCE OF PAYMENTS PROBLEM

> The notion dies hard that in some sort of way exports are patriotic but imports are immoral.[1]

Unfortunately, the balance of international payments has for many years been much more complex than the mere balancing off of merchandise exports versus merchandise imports by allowing gold to flow to the country with the export surplus. Sir Gore's remark would be significant in any case, since there is some logic lacking in the thought that the country which is receiving a greater share of the necessities and comforts of life from another country, is in the inferior position. Today's world needs a much more intensive insight into the factors that go together to make up the balance of payments.

Definition

The International Monetary Fund defines the balance of payments as a:

> . . . system of accounts covering a given period that is intended to record systematically (a) flows of real resources, including the services of the original factors of production, between the domestic economy of a country and the rest of the world, (b) changes

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[1] Sir David Ormsby Gore, British Ambassador to the United States, The Wall Street Journal, December 31, 1962, p. 6.

> in the country's foreign assets and liabilities that arise from economic transactions, and (c) transfer payments, which are the counterpart of real resources or financial claims provided to, or received from, the rest of the world without any quid pro quo.[1]

It is important to understand that the United States maintains its balance of payments computations on the principle of double entry accounts. Therefore, it is a tautologic characteristic of a balance of payments account that it will always be in balance; i.e., the total credits must equal the total debits. The credits are in-payments and the debits are out-payments.[2]

The tautologic characteristic referred to above is not followed in the collection of balance of payments data and is often forgotten in the interpretation of the account itself. This is so because in compiling balance of payments statistics, the data on each of the two sides comprising the transactions are collected separately from different sources in most cases. As a consequence, the United States is never able to balance her payments completely without insertion of an "errors and omissions" item. This item is never large when compared with the size of transactions for which data are available.[3]

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[1]International Monetary Fund, Balance of Payments Manual (Washington, 1961), p. 13.

[2]Jaroslav Vanek, International Trade: Theory and Economic Policy (Homewood, Illinois: Richard D. Irwin, Inc., 1962), p. 7.

[3]Walther Lederer, "Measuring the Balance of Payments," in U. S. Congress, Subcommittee on International Exchange and Payments of the Joint Economic Committee, Factors Affecting the United States Balance of Payments, 87th Cong., 2d Sess., 1962, pp. 75-77.

1950-1956--Desirable Deficits

The United States had a modest deficit in her international balance of payments which averaged $1.3 billion per year from 1950 to 1957. These deficits were considered to be generally desirable since they provided dollars to supplement gold in the monetary reserves of other countries.[1] The deficits reflected the strengthening of other currencies vis-a-vis the dollar and the recovery from the postwar lows in the condition of foreign economies. Western Europe and a few other countries were now not only able to increase their imports, but their competitive position had improved enough that they could afford to accumulate dollars. The United States was in the unique position of furnishing both the products which were badly needed by other nations and the dollars they required to buy the products.[2]

Transition

In 1957, the trend toward larger deficits in the United States balance of payments was concealed by a $500 million surplus attributable to an increase in United States oil and

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[1]U. S. Congress, Subcommittee on International Exchange and Payments of the Joint Economic Committee, U. S. Payments Policies Consistent with Domestic Objectives of Maximum Employment and Growth, 87th Cong., 2d Sess., 1962, p. 3.

[2]International Monetary Fund, The World Payments Situation (Washington, 1952), p. 43.

other exports. These exports necessarily increased as a result of Egypt taking over the Suez Canal and blocking shipping from the Near East.[1]

1958-1962--Serious Deficits

There was a dramatic reversal in the balance of payments situation after the close of 1957. In 1958 the United States had a deficit of $3.5 billion (Figures 1 and 2). Included in these deficits was a gold loss of $2.3 billion, the largest gold loss in United States history. This loss, more than any other factor, started the concern which continues today with the balance of payments.[2]

Figure 1 shows that the deficit grew even larger in 1959, to $3.9 billion. However, the gold loss slowed down markedly for three reasons:

1. Interest rates in the United States were higher, making it more profitable for foreigners to hold income-earning assets rather than gold.

2. The gain in reserves accrued less to monetary authorities which hold the bulk of their reserves in gold than had been the case in 1958.

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[1]Paul A. Samuelson, Economics an Introductory Analysis (New York: McGraw-Hill Book Co., 1961), p. 766.

[2]Sir Donald MacDougall, Princeton University Essays in International Finance, No. 35, The Dollar Problem: A Reappraisal (Princeton: Department of Economics, Princeton University, 1960), p. 4.

FIGURE 1

INTERNATIONAL BALANCE OF PAYMENTS OF THE UNITED STATES[a]

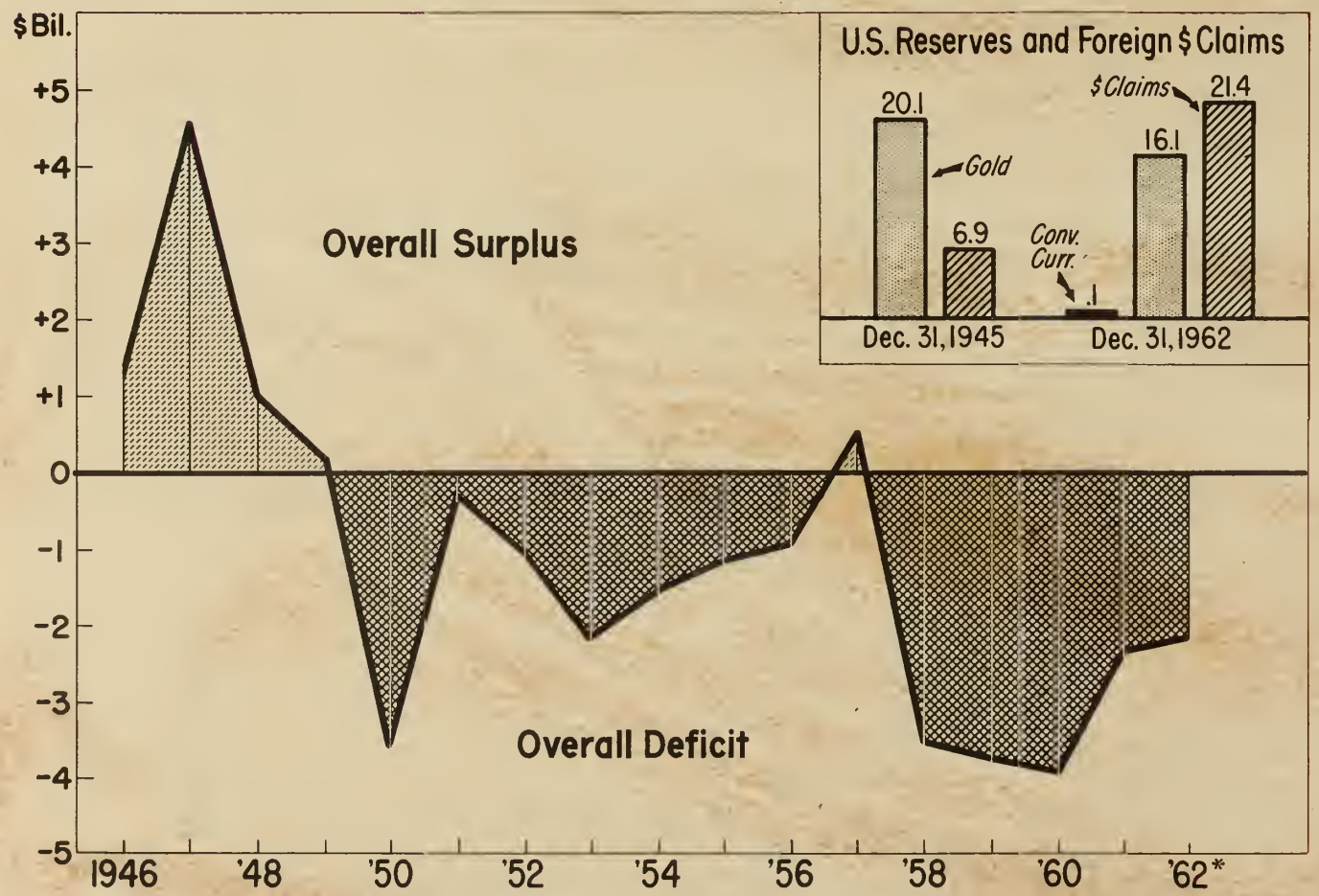
(In $000,000,000)

	1940	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962
Goods and Services														
Merchandise Exports	4.1	10.1	14.1	13.3	12.3	12.7	14.3	17.4	19.4	16.3	16.3	19.5	19.9	20.6
Merchandise Imports	2.7	9.1	11.2	10.8	11.0	10.3	11.5	12.8	13.3	13.0	15.3	14.7	14.5	16.2
Balance	1.4	1.0	2.9	2.5	1.3	2.4	2.8	4.6	6.1	3.3	1.0	4.8	5.4	4.4
Income on Investments, net	0.4	1.3	1.5	1.4	1.4	1.7	1.9	2.0	2.2	2.2	2.2	2.3	2.7	3.2
Military Transactions	b	b	b	b	0.2	0.2	0.2	0.2	0.4	0.3	0.3	0.3	0.4	0.6
Services, net	0.0	0.1	0.6	0.4	0.1	0.2	0.0	0.0	0.2	-0.2	-0.4	-0.4	-0.2	-0.4
Total	1.8	2.4	5.0	4.3	3.0	4.5	4.9	6.9	8.9	5.6	3.1	7.0	8.3	7.8
Unilateral Transfers, Military Expenditures, and Capital, net														
Private Remittances	-0.2	-0.5	-0.4	-0.4	-0.5	-0.5	-0.4	-0.5	-0.5	-0.5	-0.6	-0.6	-0.6	-0.7
Military Expenditures	-0.1	-2.6	-1.2	-2.0	-2.5	-2.6	-2.8	-3.0	-3.2	-3.1	-3.1	-3.0	-3.0	-3.0
U.S. Government Non-Military Grants	c	-3.5	-3.1	-2.0	-2.0	-1.7	-2.0	-1.9	-1.8	-1.8	-1.8	-1.9	-2.1	-2.1
U.S. Government Capital	c	-0.2	-0.2	-0.4	-0.2	0.1	-0.3	-0.6	-1.0	-1.0	-0.4	-1.1	-1.0	-1.1
U.S. Private Capital	0.2	-1.3	-1.1	-1.2	-0.3	-1.6	-1.2	-3.0	-3.2	-2.8	-2.1	-3.9	-4.0	-3.0
Foreign Long-Term Capital, net	-0.1	0.0	-0.5	0.4	0.1	0.2	0.3	0.5	0.4	c	0.6	0.3	0.4	0.9
Total	-0.2	-6.0	-6.5	-5.6	-5.4	-6.1	-6.4	-8.5	-9.1	-9.5	-7.7	-10.2	-10.3	-9.0
Errors and Omissions	1.3	c	0.5	0.5	0.3	0.1	0.4	0.6	0.7	-0.4	0.7	-0.6	-0.6	-1.0
Total of Above, net	2.9	-3.6	-1.0	-0.8	-2.1	-1.5	-1.1	-1.0	0.5	-3.5	-2.[illegible]	-3.8	-2.7	-2.2
Foreign Short-Term Capital, net	1.3	1.9	1.1	1.2	1.0	1.2	1.1	1.3	0.3	1.0		0.1	1.9	1.3
Gold Outflow (Inflow (-))	-4.2	1.7	-0.1	-0.4	1.1	0.3	c	-0.3	-0.[illegible]	[illegible]		1.7	0.7	0.[illegible]
Deficit (Surplus (-))	-2.9	3.6	1.0	0.8	2.1	1.5	1.1	1.0	-[illegible]	3.[illegible]		1.8	2.6	2.[illegible]

[a]1951-1954 data derived from: U.S. Department of Commerce, [illegible] Impact of the United States, 1956, p.887. 1940, 1950, 1955-1961 data derived fr[illegible], p.[illegible] data derived from: Walther Lederer, "The Balance of International [illegible] under and Year of 1960," Survey of Current Business, XLIII, No. 3 (March, [illegible] Less than [illegible]

Chart Figure 2.

BALANCE OF PAYMENTS (POSTWAR PERIOD)



*Preliminary.

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3. Foreign central banks exercised restraint in order to avoid embarrassing the United States.[1]

The year 1960, with a deficit of $3.8 billion was little better than 1959, and the gold outflow was more unfavorable. Also in 1960, the errors and omissions item in the balance of payments was negative for the first time. The latter is considered to be the result of an increase in short-term capital outflows.[2] Both the gold loss and the capital outflows reflect higher overseas interest rates and dropping interest rates in the United States. The interest rate impact on investors is also apparent in the record United States private capital outflow of $3.9 billion for the year (Figure 1).

The year 1961 was relatively unchanged from 1960 in the area of unilateral transfers, military expenditures, and capital, net, but a substantial gain was registered in the excess of merchandise exports over imports, net income on investments, and net services. The gain was reflected in a net deficit of only $2.6 billion, the smallest deficit since the 1957 surplus. Gold loss was $1.0 billion less than in the year previous, even though a loss of $300 million in gold was recorded in a one week

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[1] Ibid., p. 5.

[2] George H. Bossy and Haskell P. Wald, "Short-Term Capital Movements and the United States Balance of Payments," Federal Reserve Bank of New York, Monthly Review, XLIV, No. 7 (July, 1962), p. 95.

period--the biggest weekly drain on record.[1]

In 1962, the balance of payments deficit was down to $2.2 billion. This deficit reflected continuing improvement after the 1959 high (Figure 1). A decline in the balance of trade (primarily attributable to increased imports) and a rise in net payments in unrecorded transactions were more than offset by a rise in Government nonliquid liabilities, firm commitments of foreign funds for military purchases, and the transfer, net, of noninterest bearing, nonmarketable securities to certain international organizations pending their need for cash funds. Some of these transactions, coupled with receipts from advance debt repayments, have reduced the liquid dollar holdings of certain foreign countries, thereby reducing their potential demand for United States gold.[2]

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[1]"Big Dent in U. S. Gold Stock," Business Week, December 2, 1961, p. 123.

[2]Walther Lederer and Staff, "The Balance of International Payments in the Fourth Quarter and Year of 1962," Survey of Current Business, XLIII, No. 3 (March, 1963), 18-19.

CHAPTER II

THE GOLD PROBLEM

> Gold we have, but we save it. Why? I don't really know. Lenin said the day would come when gold would serve to coat the walls and floors of public toilets. When the Communist society is built, we must certainly accomplish Lenin's wish.[1]

The above prophecy may or may not ever come to be true. However, gold remains firmly entrenched as the ultimate equalizer in the economy of the world today. Only a very few nations have currencies hard enough to encourage other nations to hold them in preference to gold. Paramount among these few is the United States dollar, and even foreign nations' dollar balances will be exchanged for gold when the nations feel the need for greater financial security.

The United States as Trader and Banker

Inextricably associated with the balance of payments problem are (1) dollar balances held by foreign governments and private parties and (2) gold. Even if the United States is successful in bringing its overall balance of payments into

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[1]Premier Khrushchev, quoted in Robert Triffin, Gold and the Dollar Crisis (New Haven: Yale University Press, 1960), p.195.

reasonable equilibrium these items will remain troublesome. It has been said that "our balance of payments primarily concerns us as traders. Our gold holdings concern us as bankers."[1] Most people understand that the United States and its citizens and institutions are great international lenders and investors. Of more telling significance is the fact that the United States is also the depositary of much of the world's currency reserves and private international working balances. These foreign dollar holdings totaled approximately $21.4 billion in 1962 (Figure 3).

International Convertibility of Gold

More than half of these foreign dollar holdings are owned by governments and are convertible into gold upon demand. The private balances are not freely convertible, but could be turned over by their owners to foreign central banks and thus become subject to conversion. It is therefore logical to describe all foreign dollar holdings as being the equivalent of demand deposits in a commercial bank. Like a regular bank, the United States has lent long and borrowed short, and the United States gold holdings constitute the reserve that this bank carries to assure that a depositor can get his money back.[2] By the end

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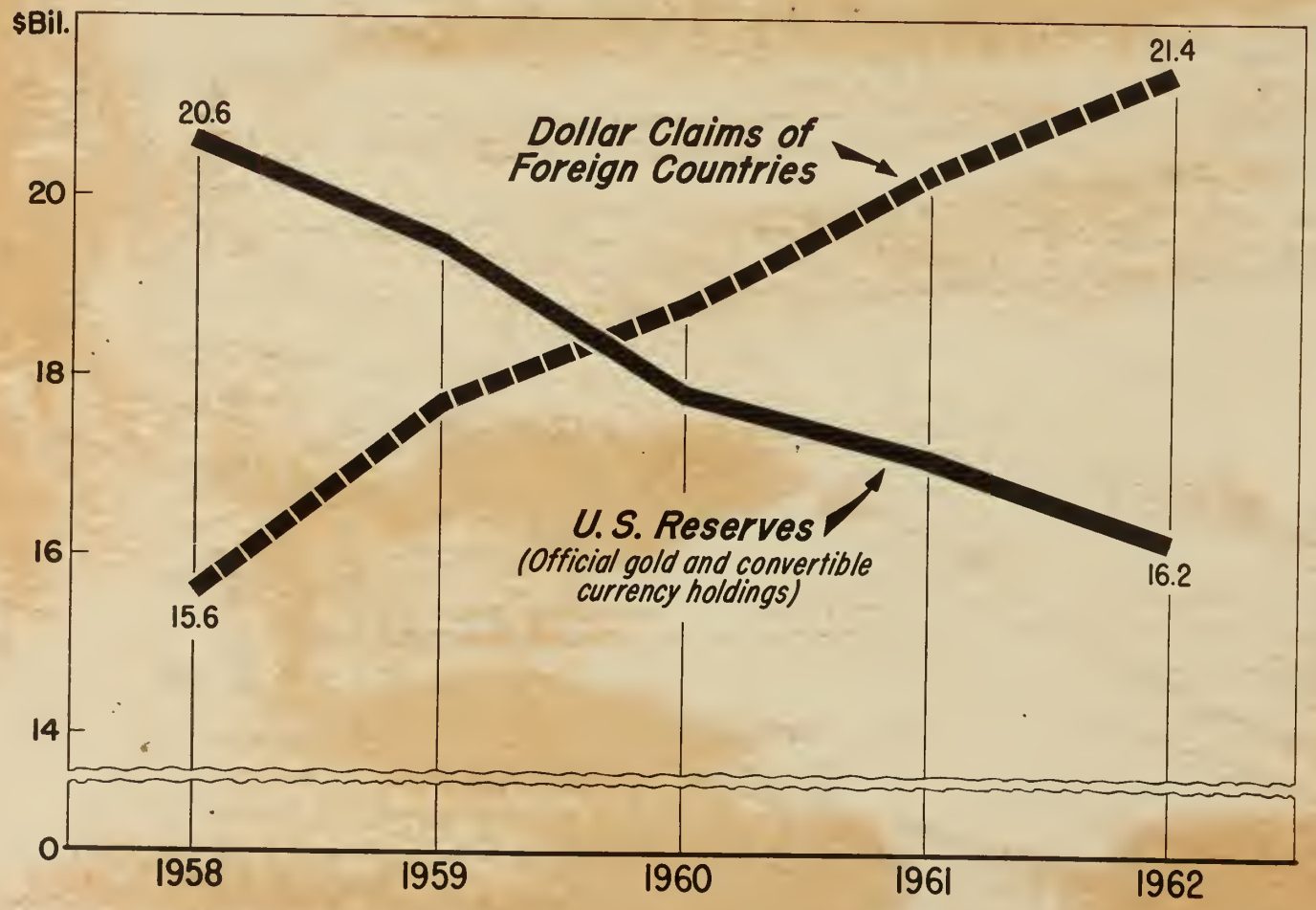
[1]Henry C. Wallich, "Cooperation to Solve the Gold Problem," Harvard Business Review, May-June, 1961, p. 51.

[2]Ibid., p. 52.

Figure 3.

U.S. RESERVES AND FOREIGN DOLLAR CLAIMS



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of 1962, the gold supply assuring the $21.4 billion in foreign dollar claims had fallen to $16.2 billion (Figure 3).

Federal Reserve Gold Requirement

The same gold supply must also fill another reserve requirement. The United States Federal Reserve System is required to maintain a gold reserve of twenty-five per cent against its deposit liabilities and Federal Reserve notes.[1] Approximately $12 billion of the United States gold supply is reserved to meet this requirement.[2]

In 1949, the United States had reached an all-time high in gold holdings, holding $24.6 billion, or seventy-four per cent of the free world's stock of monetary gold. In mid-1958, the amount was $21.4 billion, or fifty-five per cent of the world supply.[3] This abundance of gold enabled United States authorities to relax credit even where there was no outflow of gold. Thus it was an element of strength that the United States could prevent excessive fluctuations in business activity without being hampered by an insufficiency of monetary reserves. The ability of the United States to reduce interest rates in the

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[1]International Monetary Fund, International Reserves and Liquidity (Washington, 1958), p. 61.

[2]Ibid., p. 63.

[3]Ibid., p. 61.

face of a recession had a favorable effect on world liquidity too. This made it possible for other countries to ease their own credit conditions since account has to be taken not only of the absolute interest level in any one country but also of that interest level in relation to those in other economies, and particularly those of international financial centers such as the United States.[1]

The continuing drop to $16.2 billion at the end of 1962 is thus cause for concern (Figure 3). The free world's annual gold supply growth from mining operations--one and one-half per cent--is inadequate to materially help the situation.[2]

The twenty-five per cent requirement could, and would, be reduced if necessary, but stopping the downward trend of the gold supply would be a more appropriate and less startling action. Raising interest rates would encourage investment in the United States and discourage investment overseas, thus facilitating the gold situation. However, the effect of such a credit tightening policy on United States gold reserves is likely to be slow, perhaps small, and the gold benefit might be obtained at the expense of a contraction in the money supply and credit available to the domestic economy.[3] The uncertainty as to the health of

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[1]Ibid., p. 64.

[2]Triffin, op. cit., p. 177.

[3]Lederer, "Measuring the Balance of Payments," p. 83.

lost if a commercial war or protective effort on their behalf was. This made it possible for other countries to make their own weekly transactions since because the 5% return only of the absolute interest level in any one country had risen or that interest level is relative to loans in other economies, and continually trade of international financial centers such as the Dallas Times.[4]

The economic war to 1929 relied on the use of loan in some cases the country (figure 2). The free money's effect will supply growth from other economies--and non-half are--is increasing is actually only the activities.[5]

The investment for this requirement valid, and media, is valued if necessary, but according the investing round of the will mostly result be a more substantial and lower exchange action. Trading interest rates with foreign investment is the point trade and discovery investment problems when conditions the gold situation. However, the effect of such a crisis transmission policy or higher rates gold reserves is likely to be also, perhaps small, and the gold inventory effect of reduced at the effects of a contraction in the money supply and certain exchange on the domestic economy.[6] The investment in a the policy of

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[4]Hilt, p. 84.

[5]Hilt, pp. 111.

[6]Lehman, "Economic and Policies of Economic," p. 10.

today's domestic economy makes the raising of interest rates a highly controversial issue.

The Gold Exchange Standard

Fortunately, the countries which hold United States dollars do not appear likely to initiate a "run" on United States gold reserves. They hold their official dollar balances as their international reserves. They also hold greater or lesser amounts of gold. This whole arrangement is usually referred to as the gold exchange standard, the dollars held in official reserves constituting a kind of extension of gold. If dollars did not serve in this capacity the total volume of world reserves would be that much smaller and the world would be that much less "liquid."

This is the way in which the gold exchange standard has been a tremendous convenience for the United States and the rest of the world. Thanks to the standard, the United States deficits since 1950 have enabled other countries to increase their reserves without greatly reducing those of the United States. In turn, this made it possible for the United States to expand its financing of world reconstruction and development.[1]

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[1]Wallich, loc. cit., p. 52.

Hobbes's Leviathan contains many the relation of language usage to clearly constructivist issue.

The Civil Commonwealth

Institutionally, the operative point rests upon strong theses which do not appear likely to institute a "war" in social theory and research. Most civil short-circuited discussions on these institutional theories. Their also hold greater or lesser amounts of truth. Such theses attempt to usually priority to an ideal society constructed. The Hobbes' text is artificial commonwealth constitutions a kind of construction of peace. It begins his work to this argument the text version of civil commonwealth should be that such scholar and the world would be very much less "tragic."

Still in his way to build the civil commonwealth involved some a fundamental contradiction in the social theory and the real of the world. Instead of the theorist, the civil theory involving these life have greater power constructed in institutions under conditions without specific commonly least of the Leviathan system. In turn, this work is possible to the author, since he argues the dissolution of social representations and institutions.[1]

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[1] Hobbes, Leviathan, p. 37.

Pros and Cons of Gold Reserve Standard

Lest the impression be given that the gold exchange standard is all sweet with no bitter, it should be said that the standard has its severe critics. Jacques Rueff, a distinguished French economist, writes that the system is a grave peril hanging over the economy of the West; that the foreign held dollars constitute a claim on the United States gold reserves which could be called at any time--with catastrophic consequences. It is this critic's theory that the "grave peril" came about because foreign central banks were content to accept dollars in settlement of United States debts instead of demanding gold, and that the situation was brought about not because the United States lost gold, but because it lost so little gold. If settlement in gold had been required there would have been a drastic drop in United States reserves. This situation would have precipitated much earlier action to remove the deficits.[1]

Rueff's theory continues that:

> The country with a key currency is in the deceptively euphoric position of never having to pay off its international debts. The money it pays to foreign creditors comes right back home, like a boomerang. When foreign central banks received dollars or dollar credits as a result of the American balance-of-payments deficits, they were not compelled to demand the gold to which their dollars entitled them. Instead, they left

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[1]Jacques Rueff, "The West Is Risking a Credit Collapse," Fortune, July, 1961, p. 126.

> a large portion of these dollars on deposit in the U. S. where they were generally loaned to American borrowers. The central banks welcomed this arrangement all the more enthusiastically because it substituted in their accounts revenue-producing assets for entirely unproductive gold bullion or coins. The functioning of the international monetary system was thus reduced to a childish game in which, after each round, the winners return their marbles to the losers.[1]

Three consequences result from this "key currency" situation. First, under the traditional gold standard a country with a balance of payments deficit would lose gold. This loss would curtail purchasing power. This would in turn tend to counteract the deficit by releasing a greater portion of the national product for export and inhibiting imports. This theoretical automatic adjustment to equilibrium is lost under the gold exchange standard.

The second consequence can be a double pyramid of credit; capital flowing from one country to another can be expansionist in the latter without being recessive in the former. For example, when the United States has an unfavorable balance with another country, it settles in dollars. The foreigners receiving these dollars take them to their central bank in order to obtain their own national currency. The central bank, in effect, creates these funds against the dollars, and then it turns around and invests the dollars back in the United States. Thus the same

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[1] Ibid., p. 127.

dollars expand the credit system of two countries. "A similar situation gave the 1929 boom its unprecedented dimensions in Europe and led to its dreadful climax."[1]

The third consequence conceivable is the one already mentioned: If foreign dollar asset holders were suddenly to demand gold from the United States, the entire credit structure of the United States could topple.

Mr. Rueff's recommendation is to require that the United States pay off in gold all the dollar assets held by foreign central banks, and that an international conference be convened to consider additional steps necessary to resolve the problem.[2]

Naturally, as in most discussions of economic theory, arguments and counter-arguments can continue ad infinitum. A prominent New York banker, Roy L. Reierson, refutes much of Mr. Rueff's argument. The former suggests that foreigners would have built their dollar holdings substantially over the years since World War II simply for working purposes. He believes that the dollars used in settling international transactions reflect the legitimate requirements of expanding investment and world trade. He doubts that dollar balances have the pyramiding effect suggested, because few foreign central banks, particularly in Europe, are expanding their credit to the extent permitted by

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[1]Ibid., p. 262.

[2]Ibid., p. 268.

their existing reserve base. Relative to the most serious consequence--that of a run on the United States supply of gold--Mr. Reierson comments that this is a possibility applicable to every credit structure which is based on fractional reserves. He suggests that the solution is not to do away with the credit structure but to maintain a level of stability which would make a concurrence of redemption demands unlikely or impossible.[1]

United States Policy and Action

This latter theory is the one which predominates in United States political/economic affairs today. President Kennedy has stated that the first requirement for economic strength abroad is economic progress at home. He feels that the United States must ". . . improve our technology, lower our production and marketing costs, and devise new and superior products, under conditions of price stability."[2]

In order to insure the strength of the dollar and of the American economy itself, the President has established the following firm conclusions of United States policy:

1. The United States official dollar price of gold must be maintained at $35 an ounce.

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[1]Roy L. Reierson, "Does the West Face a 'Credit Collapse'?" Fortune, December, 1961, pp. 113 ff.

[2]John F. Kennedy, U. S. President, Press Release, Message on Balance of Payments and Gold, February 6, 1961, pp. 1-2.

2. Control over the balance of payments position must be gained so that any outflow of dollars into the monetary reserves of other countries will be the result of considered judgments only.

3. Maximum emphasis must be placed on expanding United States exports.

4. Return to protectionism is not the solution to the problem.

5. The flow of resources from the industrialized countries to the developing countries must be increased.[1]

Increasing exports, although only one of the many variables in the balance of payments, is a chief hope of the United States government. At the present time foreign wages and prices are rising much more rapidly than they are in the United States. For this reason, American exports can be expected to become increasingly competitive in the world markets.[2] Also, although no trend is yet apparent, the same competitive situation should cause a reduction in United States imports.

Fourteen specific measures were laid down by President Kennedy for the correction of the basic payments deficit and for

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[1]Ibid., p. 6.

[2]Frank C. Porter, "Payments Correction Is Hinted," The Washington Post, April 14, 1963, p. A15.

the achievement of the longer-term stability previously stated to be essential. These measures can be detailed briefly, as follows:

1. Senate approval of United States membership in the Organization for Economic Cooperation and Development (OECD).[1]

2. Energetic export promotion by the Department of Commerce, including the doubling of the Trade Mission program and sponsorship of foreign trade centers at London and Bangkok and investigation relative to establishing centers in Africa, Latin America, and the European continent.

3. Cost and price stabilization.

4. Export guarantees and financing through the Export-Import Bank to place American exporters on a basis of full equality with their foreign competitors. Also, investigation by the Secretary of the Treasury of methods through which private financial institutions can participate more broadly in providing export credit facilities.

5. Encouragement of foreign travel in the United States. Currently, Americans spend about $2 billion abroad, compared to expenditures of about $1 billion by foreigners in the United States.

6. Emphasis on expansion of agricultural exports by the Secretary of Agriculture.

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[1]Membership in OECD subsequently approved. See "United States Ratifies OECD Convention," The Department of State Bulletin, XLIV, No. 1137 (April 10, 1961), p. 514.

7. Maintenance of existing restrictions on the foreign economic assistance program of the United States. Less than twenty per cent of such funds are available for expenditure outside the United States.

8. Prompt action to have removed tariff discriminations against United States exports.

9. Promotion of foreign investment in the United States.

10. Legislation to prevent the abuse of foreign "tax havens" by American capital abroad as a means of tax avoidance.

11. Assistance from other industrialized countries of the free world in assisting the less developed countries.

12. Reduction of customs exemption for returning American travelers.

13. Bureau of the Budget central review of dollar outlays by government agencies and departments.

14. Exercise of maximum prudence of military dollar outlays abroad to the extent consistent with the maintenance of a fully effective military force overseas for as long as needed. National security expenditures abroad constitute one of the largest categories in the outflow of United States dollars.[1] This outflow will be the primary concern of the remainder of this paper.

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[1]Kennedy, op. cit., pp. 9-14.

7. Maintenance of military preparedness on the foreign economic assistance program of the United States. Some idea thereof per each of each funds are available for expenditure outside the United States.

8. Direct advice to Sub's concerned during investigations during United States events.

9. Promotion of foreign investments in the United States.

10. Legislation to prevent the spread of foreign "fan mission" by American capital abroad as a result of the activities.

11. Maintenance from other industrialized countries of the free world in assisting the less developed countries.

12. Extension of research commission for protecting American economics.

13. Review of the present analysis period of dollar military in strategic foreign and economic.

14. Consider of matters pertinent of military dollar military support to the United Nationals with the maintenance of a fully effective military force overseas for as long as needed. National security expenditures during investigations are of the highest importance in the outline of United States dollars.[1] This outline will be the primary concern of the remainder of this paper.

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[1]Commager, op. cit., p. 3-10.

CHAPTER III

MILITARY OVERSEAS EXPENDITURES

Awareness to the Balance of Payments Problem

As was indicated previously, the deficits in the United States balance of payments were generally considered to be desirable in the years immediately following World War II. In the years following 1957, however, it became increasingly apparent that large continuing deficits, coupled with large annual outflows of gold, must ultimately have a devastating effect on the national economy. Scattered efforts were made by knowledgeable people in various governmental agencies, but the deficit problem can be considered first to have caused national interest and concern as a result of a speech made by President Eisenhower in November of 1960.

In this speech the President propounded the problem and said:

> A definite improvement in our balance-of-payments situation is mandatory not only to insure our economic well-being and military security here at home but also to insure that the United States can continue as a strong partner in the future economic growth and military strength of the free world.
> . . . . . .

> The United States currency system serves a double purpose. It meets our domestic needs and the dollar has also become an essential cornerstone in the international financial system of the free world. It is, therefore, imperative that the United States give the very highest priority to attaining a reasonable equilibrium in its international balance of payments.[1]

The president-to-be, John F. Kennedy, was also manifesting his awareness of the balance of payments problem in his speeches immediately preceding the national elections in 1960. He said that the:

> . . . balance of trade is still relatively in our favor. Where we have lost is because we have maintained troops overseas and we have contributed a good deal to maintaining the economies of other countries.[2]

On another occasion he said:

> We have heavy commitments abroad for military and economic aid and for the support of our own oversea military forces. Our exports have not been large enough to cover these outlays when they are added to our import cost and the dollar value of American investment abroad.[3]

By "balance of trade" Mr. Kennedy was referring to the continuing surplus which the United States has experienced in the

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[1]Dwight D. Eisenhower, U. S. President, "International Balance of Payments," Statement and Directive to Federal Agencies, released at Augusta, Georgia, November 16, 1960, in Vital Speeches, December 1, 1960, p. 99.

[2]U. S. Congress, Senate, Committee on Commerce, The Speeches, Remarks, Press Conferences, and Statements of Senator John F. Kennedy, August 1 through November 7, 1960, Report No. 994, Part 1, 87th Cong., 1st Sess., 1961, p. 89.

[3]Ibid., p. 823.

ratio of exports to imports (Figure 1). There was a day when the balance of trade was the prime consideration of most countries in determining whether or not their international financial relationships were satisfactory, and gold was the equalizer. In today's world, investments, military programs, economic assistance programs, the previously referred to gold exchange standard, etc., all tend to relegate the import/export relationship to a position of comparative importance rather than paramount importance.

The defense burden has probably accounted for the revolutionary shift in the balance of payments more than any other single factor.[1] However, it would be misleading to suppose that a one billion dollar cut in military expenditures abroad would reduce the deficit by one billion dollars. This is so because some of the dollars included in the amount for exports are there only because United States government programs have furnished foreigners with dollars to support their imports. Determining the actual degree by which cuts in military expenditures overseas will reduce the deficit in the balance of payments deficit is thus a major problem.[2]

The overall recorded overseas expenditures of the military increased from $0.6 billion in 1950 to a high of $3.4 billion in

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[1]Triffin, op. cit., p. 8.

[2]Samuelson, op. cit., p. 768.

1958 (Figure 1). Then the expenditures tapered to $3.0 billion in 1960, 1961, and 1962 (Figure 1). In order to understand the possibilities of success in a program significantly to reduce the latter figure, it is necessary to study the major categories of expenditures that are included therein. Figure 4 shows defense expenditures abroad for goods and services by major category from 1957 through 1961, as compiled by the Department of Commerce. Figure 5 is of interest in portraying the manner in which the Department of Defense relates the military statistics. Figure 6 is constructive in showing the geographic breakdown for the total fiscal year 1962 net Department of Defense expenditures abroad.

Expenditures by Troops, Related Civilian Personnel, and Post Exchanges

President's Directive to Return Dependents from Overseas

The expenditures abroad by United States troops, civilian employees, dependents, and post exchanges for resale are, of course, a major part of defense expenditures affecting the balance of payments and contributing to the deficit. In his November, 1960 speech, President Eisenhower attacked this area. He directed that:

FIGURE 4

DEFENSE EXPENDITURES ABROAD FOR GOODS AND SERVICES BY MAJOR CATEGORY[a]
(in $000,000)

	1957	1958	1959	1960	1961	1962
Expenditures by Troops, Related Civilian Personnel, and Post Exchanges	881	890	888	873	846	
Expenditures for Construction	372	321	215	175	162	
Contributions to the NATO Multilateral Construction Program	65	81	58	117	52	
Contractual Services	640	772	765	774	808	
Offshore Procurement Under Military Assistance Program[b]	371	212	150	141	118	
Equipment Purchases	55	49	39	44	46	
Purchases of Other Materials and Supplies	832	1,110	992	924	920	
	3,216	3,435	3,107	3,048	2,952	3,006[c]

[a]Derived from: Cora E. Shepler, "United States Expenditures Abroad," Survey of Current Business, XLII, No. 1 (January, 1962), p. 14.

[b]Includes expenditures under military assistance programs for offshore procurement, including offshore procurement under the Lisbon Agreement; the weapons production program; and the mutual weapons development program.

[c]Derived from: Walther Lederer and Staff, "The Balance of International Payments in the Fourth Quarter and Year of 1962," Survey of Current Business, XLIII, No. 3 (March, 1963), p. 22.

FIGURE 5
U. S. DEFENSE EXPENDITURES AND RECEIPTS ENTERING THE INTERNATIONAL BALANCE OF PAYMENTS[a]
(in millions of dollars-by fiscal year)

	1961 (Act.)	1962 (Prel.)	1963 (Est.)	1966 (Obj.)
EXPENDITURES:				
U.S. Forces and Their Support:				
Expenditures by U.S.Military, Civilians and Dependents[b]	$775.2	$765.0	$775.0	
Foreign Nationals (Direct Hire and Contract Hire)	362.2	394.2	400.0	
Procurement:				
Major Equipment	52.9	56.6	61.4	
Construction	170.1	129.1	80.8	
Materials and Supplies	550.8	590.1	560.0	
Contractual Services	487.5	492.1	470.0	
Sub-Total	2398.7	2427.1	2347.2	
Military Assistance Program:				
Offshore Procurement	131.0	101.1	117.1	
NATO Infrastructure	104.4	35.3	87.0	
Other	76.0	91.3	66.7	
Sub-Total	311.4	227.7	270.8	
Total Expenditures	2710.1	2654.8	2618.0	
Less Excess Foreign Currency Obtained from U.S.Treasury	10.0	6.0	6.0	
Total Dollar Expenditures (DOD)	2700.1	2648.8	2612.0	
RECEIPTS	375.2	898.6	1244.2	
Net Adverse Dollar Balance(DOD)	2324.9	1750.2	1367.8	
OTHER EXPENDITURES (AEC and Other Agencies Included in NATO Definition of Defense Expenditures)	343.5	278.1	253.6	
Net Adverse Dollar Balance (NATO Definition)	2668.4	2028.3	1621.4	1000.0

[a]OASD (Comptroller), December 12, 1962.

[b]Includes expenditures for goods and services by non-appropriated fund activities.

FIGURE 6

U. S. DEFENSE EXPENDITURES AND RECEIPTS ENTERING THE INTERNATIONAL BALANCE OF PAYMENTS, BY COUNTRY[a]
(Fiscal Year 1962)
(Millions of dollars)

Country	Expenditures	Receipts	Net Adverse Balance
Austria	$ 5.6	$ .1	$ 5.5
Azores	6.2	.2	6.0
Bahrein Islands	42.7	--	42.7
Belgium-Luxembourg	14.6	9.0	5.6
Bermuda Islands	13.2	.2	13.0
Canada	292.3	20.9	271.4
Denmark and Greenland	37.3	4.3	33.0
Finland	.7	--	.7
France	266.6	22.0	244.6
Germany	691.1	668.2	22.9
Greece	10.7	.2	10.5
Iceland	12.3	--	12.3
Indo-China	20.9	.8	20.1
Italy	88.2	6.5	81.7
Japan	371.0	23.5	347.5
Korea	99.0	5.2	93.8
Libya	6.5	.3	6.2
Morocco	20.2	.9	19.3
Netherlands	32.2	6.0	26.2
Netherlands Antilles	54.0	--	54.0
Norway	9.5	1.0	8.5
Pakistan	6.1	2.3	3.8
Philippine Islands	49.0	2.0	47.0
Portugal	6.6	1.4	5.2
Ryukyu Islands	91.3	1.1	90.2
Saudi Arabia	40.7	2.1	38.6
Spain	52.2	.5	51.7
Sweden	2.9	.4	2.5
Switzerland	4.9	1.5	3.4
Taiwan (Formosa)	22.4	.1	22.3
Thailand	18.8	.3	18.5
Trinidad and Tobago	18.4	[b]	18.4
Turkey	64.1	1.2	62.9
United Kingdom	207.0	23.2	183.8
Yugoslavia	2.6	2.2	.4
American Republics	64.3	13.7	50.6
Other Countries	186.8	77.3	109.5
Total	2932.9	898.6	2034.3
Deduct: Excess Foreign Curr.	-6.0	--	-6.0
Grand Total	2926.9	898.6	2028.3

[a]OASD (Comptroller), December 12, 1962.
[b]Less than $50,000.

> Without diminishing our effective military strength and recognizing that the actions below may involve a budgetary adjustment, the Secretary of Defense shall:
>
> (A) Reduce and thereafter limit the number of dependents abroad of military and civilian personnel to a total of not more than 200,000 at any one time, which total shall be subject to annual review by the President. This reduction shall be accomplished at the rate of not less than 15,000 a month commencing Jan. 1, 1961, pursuant to such rules and regulations as the Secretary may prescribe and shall, to the maximum extent feasible, apply to dependents located in highly industrialized countries with strong currencies. Exceptions to the foregoing limitations shall require the personal authorization of the Secretary or Deputy Secretary of Defense.[1]

The Secretary of Defense implemented the President's order immediately. In addition to the President's basic requirements, the Secretary provided that the reduction in dependents overseas should be effected impartially throughout the grades and ranks of military and civilian personnel so far as possible. He provided for the shortening of unaccompanied tours and authorized curtailing the length of tours of personnel currently overseas in order to reduce the number of dependents who would have to return to the United States unaccompanied. The individual services were to reduce dependents in proportion to the number of dependents each currently had overseas. Exempted from the requirements were the Canal Zone, Marianas, Marshall Islands, Midway Island, Puerto Rico, Samoa, and the Virgin Islands.[2]

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[1]Eisenhower, loc. cit., p. 100.

[2]Thomas Gates, U. S. Office of the Secretary of Defense, Memorandum, Reduction of Dependents in Foreign Countries, Nov. 25, 1960.

without diminishing our military military strength and transmitting them to foreign nations may impair a potentiary determined the defense of nations well.

(4) Cause any particular class or number of personnel engaged of military and civilian personnel to a level of not more than 25,000 at any one time, while total shall be multiplied to special units or by treatment. This technique again is unconditional in the year of not less than 25,000 a month commencing jan. 1, 1951. Increase in such units and classifications as the necessary by national and shall, in the national interest result. Only to necessarily limited in slight international tension also minor aggressions. Accelerations by the foregoing limitations shall provide the general mobilization of the military or equal military of nations.[1]

The secretary of defense implemented the president's order immediately. In addition to the president's call, Secretary, the secretary provided that the reduction in personnel overseas should be affected immediately throughout the world and that of military and civilian personnel to not be replaced. In preparing for the mobilization of manpower there and accomplished mobilizing the target of 3000 of personnel overseas in order to reduce the number of civilians who would have to return to the United States immediately. The limitations were to result dependence in proportion to the number of immediately from potentially the overseas. Charged that the mobilization with Hand Land, Marines, Service Islands, Army Island, Pacific Army, Navy, and the Pacific Islands.[2]

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[1]Hammond, Op. Cit., p. 100.

[2]Thomas Lyons, p. 1; Office of the Secretary of Defense, Statistics, Statistics of Demobilization in Pacific Territories, Nov. 1950.

During December, 1960 and January, 1961, a number of minor modifications were made in the President's directive of November 16, relating to the reduction of dependents in foreign countries. For example, dependents in the Ryukyu Islands, Guantanamo Naval Base, and Panama were made exempt from the directive. Further, it was planned that reduction would be made of approximately 207,000 dependents by March 31, 1962.

Rescission of Directive to Return Dependents

Immediately upon taking office, President Kennedy ordered a reappraisal of the balance of payments situation, with particular reference to the order to reduce the number of dependents of Department of Defense personnel overseas. His conclusion was that, while obviously the United States would have to exercise the utmost prudence in its dollar outlays abroad, the limitation on dependents' travel to overseas areas was not the best way to accomplish the needed savings since the limitation was seriously damaging morale in the armed services. Therefore, on February 1, 1961, the President directed the Secretary of Defense to rescind the order and to find alternative measures which would produce equivalent dollar savings.

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[1]Charles J. Hitch, "Statement of Charles J. Hitch, Assistant Secretary of Defense (Comptroller)," December 12, 1962, in U. S. Congress, Subcommittee on International Exchange and Payments of the Joint Economic Committee, Outlook for United States Balance of Payments, 87th Cong., 2d Sess., 1962, p. 51.

During December 1963 and January, 1964, a number of minor modifications were made in the President's directives of November 1, relating to the evacuation of dependents in foreign countries. For example, expenses in the United States, Guatemala, Costa Rica and Panama were added to the directive. Further, it was decided that reductions would be made of approximately 207,330 dependents by March 31, 1964.

Assessment of difficulty in evacuating dependents

Immediately upon taking office, President Johnson ordered a reappraisal of the balance of payments situation, with particular attention to the order to reduce the number of dependents of government of United States nonmilitary overseas. The consideration was that, while certainly the United States would have to tolerate the short problems in the dollar outflow abroad, the limitation of dependents' travel to overseas posts was not the best way to economize for several reasons since the limitation was seriously damaging morale in the foreign services. Therefore, on February 1, 1964, the President directed the Secretary of Defense to review the order and to find alternative measures which would produce equivalent dollar savings.

Memorandum 1. Ibidem, "Statement of Charles J. Zwick, Assistant Secretary of Defense (Comptroller)," December 12, 1966, in H. J. Res. 1, Hearings on International Economic and Monetary of the Joint Economic Committee, Report for Joint Staff Balance of Payments (1st Cong., 2d Sess.), 1966, p. 91.

Voluntary Reduction of Individual Expenditures

The Secretary of Defense issued a memorandum on March 6, 1961, directing the military departments to institute a voluntary program for reduction of individual expenditures overseas. This memorandum established an objective of saving $75 million to $110 million per year in dollar expenditures entering the international balance of payments during the year 1961. In order to achieve this reduction in expenditures, an average annual voluntary reduction in spending of $75 to $110 per capita per annum is required for each military member, United States citizen civilian employee of the Department of Defense, and dependents of both overseas.[1]

In order to achieve the objective referred to above, the memorandum called for the institution of an intensive educational program to point out the position of the United States in the international balance of payments and actions which the individual might take to contribute to the solution of the problem. The program was to include information as to the advantages of using United States controlled recreation facilities, examples of saving on the dollar flow through the use of less expensive services while traveling, etc.[2]

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[1]Robert S. McNamara, U. S. Office of the Secretary of Defense, Memorandum, Overseas Expenditures Reduction Program--Individual, March 6, 1961.

[2]Ibid.

[illegible] Salaries of Industrial Scientists

The Secretary of Science Issued a Memorandum on March 8, 1961, directing the military departments to institute a systematic program for recruitment of industrial scientists and engineers. This recruitment was designed to relieve of having 175 million to [illegible] million per year in their scientists serving the international [illegible] of [illegible] during the year 1961. In order to achieve this reduction in overhead, an average annual industry recruiting is required of 171 to 210 per month per [illegible] is required for each military member. Skilled career civilian analysts at the Department of Defense, and [illegible] of [illegible] operations.[1]

In order to achieve the objectives referred to above, the memorandum called for the institution of an industry [illegible] program to point out the advantages of the Corps [illegible] the [illegible] of [illegible] and [illegible] which the industrial [illegible] to contribute in the solution of the problem. The program was to include information as to the advantages of [illegible] industry [illegible] facilities, examples of [illegible] the use of less expensive [illegible] analysts, etc.[2]

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[1] [illegible], D. D., Office of the Secretary of Defense, [illegible] Industrial Scientists Engineers [illegible] Memo 3, [illegible].

[2] Ibid.

Each military and civilian individual and their dependents were encouraged to limit their expenditures for foreign goods to items which:

> a. Are purchased in an exchange outlet or other approved United States military operated resale activity, and then only to goods for which a real need exists.
> b. Are required for the use of the individual or his household incident to his duty overseas and a reasonable substitute cannot be procured from an exchange outlet or from the United States.
> c. If not covered under (a) and (b) above, do not exceed a total cost of $100 per year for each individual overseas.[1]

Each military department was directed to take the following actions:

> a. Consistent with status of forces agreements, country to country agreements, and treaties, make the maximum feasible reduction in the number of local national employees of nonappropriated fund activities, substituting in their stead, United States dependent personnel already in the country and off-duty employment of military personnel.
> b. Prohibit the transportation at government expense of any foreign made motor vehicle purchased by Department of Defense personnel or their dependents overseas or for delivery overseas unless:
> (1) Owned or on order on the date of this memorandum.
> (2) Adequate facilities do not exist for the maintenance and repair of motor vehicles produced and assembled in the United States. . . .
> c. Encourage and promote a savings program to the end that there will be an average of $100 additional savings per year for each military member or United States citizen civilian employee overseas. . . .[2]

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[1] Ibid.

[2] Ibid.

Each military and civilian individual and unit participating must recognize at least basic requirements for invoking Geneva Convention rights:

a. Are prisoners in an armed conflict entitled to treat hostile military forces deployed against civilian, and does only or guerrilla for which a good need exists.

b. Are regulations for the use of the protection or his essential institutions in the duty officers and a reasonable authority actual to unknown from or strongly action or from the United States.

c. If not covered under (a) and (b) above, do you provide a total ban of (1a) (2c) (3c) for the individual civilian.

Each military transferred the detained to have the following motives:

a. Constitutes the status of Geneva Agreements, measure to minor infringement, and treaties, move the measures levelled reduction in the course of local political requirements of unsupported that activities, combatants in World War, United States Department protected allegiance in the armedes and off-duty employment of military personnel.

b. Prohibit the transportation of detrimental effects of the foreign made under remote prohibited of Amendment of Indians protected or their disposition otherwise or the military protected objects.

(1) Cause or an order on the loss of this employment.

(2) Adequate facilities do not exist for the administration and repair of motor vehicles produced and employed in the United States. . . .

c. Detention are provide a service program to the and that have all be an average of 100 additional actions, do that the each military member or veteran these allows civilian employee otherwise. . . .

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[1]Ibid.

[2]Ibid.

Nonappropriated Fund Activity Restrictions

The President had also directed that a prohibition be established against the purchase of foreign goods by the non-appropriated fund activities related to the military services, except where the Secretary of Defense personally made an exception to this prohibition.[1]

Therefore, at the same time that the Secretary of Defense issued his memorandum commencing the reduction of Defense dependents overseas, a directive was issued establishing criteria to guide nonappropriated fund activities overseas in their buying. The directive prohibited the purchase of foreign goods by non-appropriated fund activities subject to the following conditions:

> 1. Interim procurement of items of subsistence and other items which cannot be immediately procured from United States sources when such items are essential to the health and welfare of personnel of the Department of Defense and their dependents is authorized until products of United States origin or manufacture can be obtained. . . .
> 2. Perishable food stuffs may be purchased . . . but their procurement should be under constant review to favor United States purchases when feasible.
> 3. Without prejudice to the procurement of subsistence and other essential health and welfare items referred to in the preceding paragraph, contracts or agreements now in force for purchase of foreign goods will be cancelled or adjusted as appropriate in accordance with applicable law unless a monetary loss, not including profit from sales, will result to the nonappropriated fund activity. In cases where monetary losses would be incurred contracts/ agreements will be terminated as soon as practicable and no new contracts or agreements for foreign goods entered into.

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[1]Eisenhower, loc. cit.

4. Actions required by the above which may appear to be in conflict with existing country to country agreements will be referred to the Office of the Secretary of Defense for exception.[1]

Reaction to Nonappropriated Fund Activity Restrictions

Very few exceptions to the above were made until August of 1961. However, reports from commanders in the Pacific and European areas, coupled with Department of Defense staff visits, made it apparent that the overall nonappropriated fund activity policy was not working satisfactorily.

For example, the prohibition against the overseas procurement of foreign goods for resale through nonappropriated fund activities caused the unsatisfied desire of United States personnel for the goods to manifest itself in direct purchases from the local economy. The cost was higher because of the inclusion of local taxes and higher profit markups. Since these add-ons are not included if the foreign goods are sold through the usual United States operated outlets, the net result appeared to be an increase rather than decrease in dollar expenditures abroad.

Also, foreign merchants moved to counter the effects of the prohibition on the purchase of foreign goods by setting up operations near overseas installations. The Department of Defense

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[1]Thomas Gates, U. S. Office of the Secretary of Defense, Memorandum, Nonappropriated Fund Activities of the Department of Defense, November 25, 1960.

was losing not only price and quality control over foreign merchandise procured by its personnel, but also the profits normally accruing from the sale of the merchandise. These profits had been used to support morale and welfare programs. Additionally, foreign beer and wine distributors had set up a home delivery service for the convenience of military personnel at prices more favorable than corresponding United States products could be acquired in United States operated resale activities.[1]

Official representations from Austria, Denmark, Iceland, Ireland, Japan, Morocco, Panama, and the United Kingdom had been generated also to protest the prohibition on the procurement of their goods.[2]

A thorough review of the problems and complaints resulted in a modification of prior instructions. Prior directives relating to sale of foreign items by Department of Defense non-appropriated fund activities were modified in August, 1961.[3]

Apparently the only real reductions in expenditures overseas under the program had been in those areas where the post exchanges

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[1]U. S. Department of Defense, Report on Actions Taken by the Department of Defense to Reduce United States Defense Expenditures Entering the International Balance of Payments Since 1959, January, 1962, p. 9.

[2]Ibid., p. 10.

[3]Roswell Gilpatrick, U. S. Office of the Secretary of Defense, Memorandum, Nonappropriated Fund Activities of the Department of Defense, August 9, 1961, and Carlisle Runge, U. S. OSD, Memorandum, same title, August 10, 1961.

were selling goods from countries other than where the exchanges were located. The revised directives required that the non-appropriated fund activities price the foreign goods at prices as high as in the local market. The higher profit margins resulting from the sale of the foreign goods then enabled the post exchanges to cut profit margins on goods of American origin and thus encourage personnel to purchase United States manufactured products.[1]

Assessment of Program's Success

Direct assessment of the degree of success of the Defense Department's program for individual reduction of overseas expenditures is extremely difficult because of the spottiness of available statistics. There were, however, some positive indications. For example, 54.5 per cent of Army personnel in foreign countries were purchasing savings bonds by payroll deductions or allotments as of December 31, 1960. This percentage increased to 58.0 per cent three months later, and was 63.1 per cent as of June 30, 1961. Participation in the Army's soldiers' deposits savings plan increased from 8.9 per cent on March 31, 1961, to about 11.0 per cent on September 30, 1961. Sales of American Express Company money orders for remittance to the United

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[1]Dora Shepler, "United States Expenditures Abroad," Survey of Current Business, XLII, No. 1 (January, 1962), p. 15.

were selling goods from consumer order book where the workforce was located. The central directives required that the cooperative [illegible] prices the foreign goods at prices as high as in the local market. The higher profit margins resulting from the sale of the foreign goods were enough to pay salaries if the profit margins or units of labelled origin and thus exercise personnel to purchase valuable state manufactured products.[1]

Management of Profits's Success

Albert's management of the issues of harness of the Lenses Distributor's products for individual requisitions of processed manufactures is extremely difficult because of the complexities of medical classifications. Thus, were, however, some positive indications. For example, 24.5 per cent of long personnel in foreign countries were purchasing energy goods by imported distributors or affiliates as of December 31, 1980. This percentage increased to 38.0 per cent three months later, and was 63.1 per cent as of June 30, 1981. Furthermore in the Corp's original property series plan commencing from 8.7 per cent as during 31, 1981, to about 13.7 per cent on December 30, 1982. Sales of initial foreign company goods [illegible] for realizations to the United

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[1] John Stanley, "Profit Share Commissions Spread," Journal of Personnel Management, Vol. 24, 1 (January 1981), p. 13.

States during January-September, 1961, were $20.3 million. For the same period in 1960, remittances were $16.7 million.

Air Force sales of savings bonds to overseas personnel were $6.2 million during the July-September, 1961 quarter as compared to about $5.8 million during the April-June, 1961 quarter. The Air Force European Exchange Service also entered into concessionaire contracts with four American investment brokerage firms in order to provide their personnel with a full line of investment services. In areas where the United States Treasury holds foreign currency, military bases have taken steps to make these funds conveniently available for personal and nonappropriated fund use to the maximum extent feasible.

A program was also set up to facilitate the sale of United States manufactured automobiles through overseas post exchanges. The prohibition on government shipment of foreign automobiles has encouraged the purchase of these vehicles, and approximately four hundred United States manufactured cars were purchased through post exchange facilities during the period June-November, 1961.

Also indicative of decreased spending by defense personnel overseas has been the decrease in the tonnage of parcel post shipments to the United States from USAREUR from fifteen million pounds during the period January-November, 1960, to ten million pounds during the same period in 1961.[1]

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[1]U. S. Department of Defense, Report on Actions Taken . . ., pp. 6-7.

Iranian service (Ministry-wide), 1951, were $[illegible]$ million. For the same period in 1950, expenditures were 16.7 million.

All round value of services based on currency purchasing were $[illegible]$ million during the fiscal-year, 1951 compared to expenditure of about $[illegible]$ million during the fiscal-year, 1951 quarter. The last force employed Iranians serving also extend type commercial-type contracts with their national labor employees. Since in order to provide their personnel with a full line of international services. In order about the United States Economic Aid Foreign Economic, Military Sales Loan Agreement is made based trust mutualmente provisions for personnel and employed from day to day the minimum extent feasible.

I officers are also not up to a ministerial job and is doing their management economical surplus expenses just economy. The possibility of currency adjustment of foreign authorities can economically the purchase of local vehicles and economically just because certain service contracted such local procurement through good economic conditions during the period commencement, 1951.

Also indicative of improvement achieved by Iranian personnel services can best be measured in the economy of local post relationship of the United States from training from direct utilize funds during the period commencement, 1950, as the utilize funds during the same period in 1951.[1]

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[1] U. S. Department of Defense. Report on Military Aid Program FY. 1951.

Figure 4 shows only modest reductions in the category for expenditures by troops, civilian personnel, and post exchanges. Figure 5 projects substantially no further savings at all in this area, although adequate savings are anticipated to offset the general rise in prices which has been experienced overseas.

The Clay Report

The Clay Foreign Aid Report made some critical comments relative to the economic and military assistance which the United States provides to certain countries in exchange for bases. The report indicates that the practical cost seems excessive, especially where the bases provide both considerable dollar income from expenditures by United States personnel and from hire of local personnel. The report recommends reduction of economic aid where there are these large defense expenditures.[1] A hard review of overseas bases is likely to result from the report.

Expenditures for Equipment, Other Materials and Supplies, and Construction

President's Action

President Eisenhower, in his November, 1960 speech, had directed, in addition to his policy statement relative to the return of dependents who were overseas, that the Secretary of

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[1]The Washington Post, March 24, 1963, p. A-13.

There is some daily motor transport in the village for commuters to Grove, Grafton Parkway, and Jane Langdale. There is partial availability to Tarbes during so all is that late, although Jackson's village are maintained to offers an essential view in which the best interested services.

The Story Report

The Star Tribune his School made some critical comments relating to the invasion and military activities when the United States sacrifice to secure quantities to Antonio for Lunes. The Report Initiative that the practices very many expensive, essentially since the Jane Langdale and Lieutenants office Tarbes over commissions by United States personnel and Jane Hire of local interest. The report recommends reduction of economic aid since when the Lunes Army Natural economicians.[1] A hard review of reports shows is lately to result from the report.

Information for Engineers, Other Officials and Supplies, and Construction

Treasurer's Indus

Treasurer's Lunes, in the Treasurer, 1900 events, has itself, is activity of the action Statement relative to the report of agreement and very effective, that the Secretary of

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[1]The Washington Post, March 24, 1993, p. A-11.

Defense:

> Take promptly all possible steps to reduce by a very substantial amount the expenditures, from funds appropriated to the military services and for the military assistance program, that are planned for procurement abroad during calendar year 1961, by establishing a minimum amount by which such procurement shall be reduced.[1]

President Kennedy of course continued this policy, as indicated by the following statement:

> We shall continue the policy inaugurated last November of emphasizing United States procurement for our military forces abroad wherever practicable, even though some increased budgetary cost may be incurred. Since foreign procurement of this nature has amounted to almost $1 billion a year, significant savings in dollar outflow can be expected . . .[2]

Overseas Purchases for Use in the United States;

the Buy American Act

It is necessary to distinguish between the actions taken relative to purchases for use overseas and those actions relative to purchases for use in the United States. On purchases for use in the United States, the procedures of the Buy American Act and Executive Order 10582 apply. The Buy American Act provides that:

> Notwithstanding any other provision of law, and unless the head of the department or independent establishment concerned shall determine it to be inconsistent with the public interest, or the cost to be unreasonable, only such unmanufactured articles, materials, and supplies as have been mined or produced

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[1] Eisenhower, loc. cit.

[2] Kennedy, op. cit., p. 15.

> in the United States, and only such manufactured articles, materials, and supplies as have been manufactured in the United States substantially all from articles, materials, or supplies mined, produced, or manufactured, as the case may be, in the United States, shall be acquired for public use. This section shall not apply with respect to articles, materials, or supplies for use outside the United States, or if articles, materials or supplies of the class or kind to be used or the articles, materials, or supplies from which they are manufactured are not mined, produced, or manufactured, as the case may be, in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality.[1]

Stated succinctly, the act requires that buying, for end products to be used in the United States, be only from domestic sources, except where the price of such end products is unreasonable, or where their acquisition would be inconsistent with the public interest, or where the end products are unavailable from domestic sources.

Executive Order 10582

Executive Order 10582, issued December 17, 1954, establishes six per cent, plus duty, as the price differential beyond which the price of domestic products will be considered to be "unreasonable." It provides that materials shall be considered to be of foreign origin if the foreign products used in such materials constitute fifty per cent or more of the cost of all the materials used in such materials. And, of great importance, the

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[1] 47 Stat. 1520 (1933), 41 U. S. C. 10a (1958).

in the United States, but only have manufactured articles, materials, and supplies as have been manufactured in the United States substantially all from articles, materials, or supplies mined, produced, or manufactured in the United States, or substantially all from articles, materials, or supplies of the kind or quantity not available in sufficient quantity or of a satisfactory quality.[1]

Based accordingly, the act requires that Japan, for any product to be part of the United States market, be duty free imports, except where the price of such act prevents the importation of where their importation would be inconsistent with the public interest, or where the act products are available from domestic sources.

Reciprocity Clause: 1922

Beginning with the Fordney-McCumber Act, 1922, provisions are put most, that now, in the price differential beyond which the price of foreign products will be considered to be "unreasonable". It provides that materials shall be considered by us of foreign origin if the foreign country sell in such materials considerably more than sell or more of the cost of all the materials used in such articles. Thus, if these importers, the

[1] Act June, 1930, 46 U. S. C. 836 (1930).

Order permits the head of an agency "to reject any bid . . . if such rejection is necessary to protect essential national-security interests. . . ."[1]

Criteria for Bid Evaluation

The Secretary of Defense has directed that United States procuring activities continue to evaluate bids in accordance with the Buy American Act and Executive Order 10582. If a domestic bid or offer is within the six per cent differential of a lower bid or offer offering foreign material, award is made accordingly to the domestic offerer, without referral to higher authority. If, on the other hand, such evaluation indicates that under the prevailing criteria there should be an award for supplies of foreign origin, the case must be referred to the Secretary of Defense or the Deputy Secretary of Defense.

The only exceptions to this high-level referral requirement are:

1. Decisions on proposed procurements of foreign end products which are estimated not to be in excess of $100,000, other than those covered by paragraphs 2, 3, and 4 below, shall be made at the Secretarial level of a military department or by the Director or Deputy Director of the Defense Supply Agency.

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[1] 41 U.S.C. (1958), p. 6636.

order preclude the need of an agency "to inquire into and . . . if even politically or economically it proves desirable national-security interests. . . ."[1]

Criteria for the Decision

The authority of Congress has alternated from broad grants permitting extensive decisions by executive fiat to no delegations with the Act requiring its own detailed case-by-case review. If a foreign air or other is allowed the air or sea conveyance of a foreign air or other carrier operating exclusively, except in such exceptionally to the domestic carrier, without requiring the carrier separately. If, on the other hand, some critical factors indicates that under the prevailing circumstances there should be no basis for valuing or taking action, the case must be referred to the Secretary of Defense or the Deputy Secretary of Defense.

The only exceptions to this high-level referral requirement are:

1. Decisions on proposed transportation of foreign and domestic cargo are relatively not to be in excess of $100,000, where then cases requiring to procedures 2, 3, and 4 below, shall be made at the Departmental level of a military department or by the Director or Deputy Director of the Defense Traffic Agency.

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[1] 49 U.S.C. 1507(1), 1. 1508.

2. Decisions on proposed procurements based on a finding of nonavailability from United States sources shall be made at the Assistant Secretarial level of a military department or by the Director or Deputy Director of the Defense Supply Agency, if the procurement is estimated to be more than $10,000 but not in excess of $100,000.

3. Nonavailability decisions estimated not to exceed $10,000 may be made by heads of procuring activities.[1]

4. Special rules exist relative to supplies of Canadian origin and Panamanian supplies for use in the Canal Zone.[2]

Statistics in this area of paying premiums for the procurement of domestic materials are inadequate, but a differential well in excess of the six per cent stipulated in the Executive Order has already been directed in a number of procurements. The authority for these actions has been the Buy American

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[1]Procuring activities are specifically enumerated in the Armed Services Procurement Regulation (1963 ed.), paragraph 1-204.14, p. 110. They are major operational and logistic commands and include, for the Army: U. S. Army Materiel Command, U. S. Army Command and the Zone of Interior Armies, various U. S. Armies located overseas, Office of the Surgeon General, Defense Atomic Support Agency; for the Navy: each Bureau, the Office of Naval Research, the Navy Aviation Supply Office, the Military Sea Transportation Service, and the U. S. Marine Corps; for the Air Force: the Air Force Logistics Command and the Air Force Systems Command; for the Defense Supply Agency: the Defense Supply Centers and the Defense Traffic Management Service; etc.

[2]Robert S. McNamara, U. S. Office of the Secretary of Defense, Memorandum, Procurement of Supplies of Foreign Origin for Use in the U. S. (Buy American Act), August 11, 1962.

1. Restriction on proposed photomapping flight as a
finding of monopolistic from United States Congress shall be
made at the lowest commercial level of a military aircraft
or by the director of supply command of the United States
Army, if the proposed is estimated to be more than $10,000
but not in excess of $50,000.

2. Commercially available photos authorized not to exceed
$10,000 may be made by means of procuring activities.[1]

3. Direct film could results in restriction of commercial
origin and necessary priority for use in the Dept. Army.[2]

Attention is also made of photo products for the
government of domestic municipalities are inadequate, and a
distinctive well in excess of the air get best equipment in the
economic field has already been attended in a number of product-
ions. The necessity for these activities can even the day increase

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[1] Procurement activities are specifically enumerated in the
final instruction [illegible] (1953 ed.), paragraph
[illegible], p. 120. Only the major operational and logistic commands
and agencies, for the Army, i.e. U. Army Material Command, U. S.
Army Transport and the Chief of Ordnance Bureau, listed in U. S. Bureau
[illegible] Procurement, Office of the Secretary General, Private Circular
Number Number, for the Army, Army Bureau, the Office of Naval
Research, the Navy Aviation Supply Office, the Military Air
Transportation Service, and the U. S. Marine Corps, for all its
units, and for Navy activities operated and the Air Force Systems
Command, for the Defense Atomic Support Agency, the Defense Supply Agency
and the Defense Atomic Support Agency [illegible].

[2] Cohen T. Stanley, U. S. Office of the Inspector of
Ordnance, Washington, Procurement of Supplies of Foreign Origin for
Use by the U. S. Armed Forces, August 22, 1954.

Act itself and the "national interest" authority of the Executive Order.[1]

Overseas Purchases for Use Overseas

The directives with respect to purchases of goods and services for use overseas have been numerous and complex. The two most important were issued in December, 1960, and in July, 1962. The 1960 directive took a broad view of a number of types of supplies and purchases to be procured and used outside the United States. It indicated that a minimum of $65 million was indicated for return to the United States in calendar year 1961, for domestic procurement. It established the following guidelines:

1. Careful review of requirements for supplies of foreign origin to determine whether domestic items might adequately fulfill the need.

2. Procurement should normally be returned to the United States for procurement when it was estimated that the cost of the United States supplies or services (including transportation and handling costs) will not exceed the cost of foreign supplies or services by more than twenty-five per cent.

3. Curtailment of further contracts for the construction of family housing and related facilities, such as schools, chapels, hospitals, etc., pending rejustification and specific approval

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[1]Hitch, loc. cit, p. 52.

not least on the Canadian industrial capacity of the resources under.[1]

Current economic use of the resources

The principal use of resources to produce goods and services for the economy have been changing rapidly. The two most important were issued in December, 1950, and in July, 1951. The first directive gave a broad view of a number of types of supplies and materials to be produced and used outside the United States. It indicated that a minimum of $25 million was intended for export by the United States in calendar year 1951. The directive provides. It specifically and following priorities:

1. Critical review of requirements for supplies of foreign origin in determine whether economies could more adequately fulfill the need.

2. Strategic materials activity is reduced to the United States for stockpiling when it was determined that the bulk of the United States supplies of strategic (including transportation and processing equipment) will not exceed the need of foreign supplies or services by more than [illegible] or [illegible].

3. Development of further measures for the conservation of fuel, metals and national facilities, such as schools, hospitals, [illegible], etc., which requirements and quantity operated

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[1] [illegible], p. 12.

from the OASD (P&I). Consideration should be given to the cancellation of existing contracts where practicable and reasonable.

4. Reconsideration of future research and development programs planned abroad to determine if United States firms or individuals might reasonably perform the work.

5. Consideration should be given to terminating or partially terminating existing supply and service contracts involving substantial amounts if the termination charges plus the cost of repurchase in the United States would be within the twenty-five per cent differential stated in paragraph 2, above.[1]

Excepted from the 1960 directive were the following purchases:

> 1. Emergency purchases.
> 2. Purchases under $1,000.
> 3. Subsistence which is so fragile or perishable . . .
> 4. Supplies and services available only from foreign sources and for which there are no acceptable substitutes.
> 5. Purchases made with excess foreign currencies held by the United States Treasury . . .
> 6. Supplies or services required to be made pursuant to a treaty or other executive agreement.
> 7. Other exceptions specifically authorized by the Secretary of Defense.[2]

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[1]James H. Douglas, U. S. Office of the Secretary of Defense, Memorandum, Supplies and Services to be Procured and Used Outside the United States, December 16, 1960.

[2]Ibid.

than the only (sic)[1] consideration should be given to the accomplishing of existing agreements under irrefutable and reasonable.

4. Accomplishment of future research and development programs planned should be determined if United States or individuals might reasonably perform the work.

5. Consideration should be given to availability of particular investigative activities which the service contracts involving economical success if the substitution charges plus the cost of recruitment in the United States would be within the contracted per-case differential stated in paragraph 3, above.[2]

Assigned from the 1000 Activities were the following priorities:

1. Emergency operations.
2. Cost-does-matter 21,000.
3. Substitution which is no feasible or practicable . . .
4. Supplies and services available only from foreign sources and for which prices are so unreasonable as to be unacceptable.
5. Programs that are very novel foreign governments call by the United States Treasury . . .
6. Supplies or services available in the area involved by a branch or other elements.
7. Those arrangements geographically authorized by the Territory or Delegate.

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[1]Lucas G. Dunning, T. D. Office of the Secretary of Defense, memorandum, Subject: Cost Limits to be Assigned and Data Publish the Contract Action, Washington, D.C., 1964.

[2]Ibid.

The objective of a $65 million savings in foreign procurements was met, according to reports submitted by the military departments. The reports indicated that approximately $71.4 million of procurement contracts that normally would have been placed abroad were returned to the United States in accordance with the Secretary's directive. The additional cost of placing this amount of procurement domestically was estimated at approximately $10.4 million, or about seventeen per cent more than if procurement had been from the foreign sources. During the first six months of calendar year 1962, about $15.7 million of procurement was returned to the United States at an estimated increased cost of $3 million or 14.2 per cent.[1]

The 1962 directive tightened the previous exceptions by lowering the small purchase exception from $1,000 to $500, and by limiting the emergency procurement authority to $10,000. Exception (3), subsistence, could be approved only by about twenty very high level military commanders, except that the commanders could redelegate the authority to specifically designated individuals for subsistence purchases up to $10,000. Exception (4), supplies and services available only from foreign sources, could be approved up to $1 million by the same authorities, who again could redelegate to specific individuals for procurements estimated not to exceed $10,000. Exception (4) procurements falling between $1 million and $3 million were to be approved by the Departmental Secretary or the Director of the Defense Supply Agency. The Secretary or Deputy Secretary of

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[1]Hitch, loc. cit.

Defense would approve procurements estimated to exceed $3 million. The delegated determinations could be made only after considering whether it would be reasonable to forego filling the requirement or to provide a United States substitute for it.

The directive provided that procurements in excess of $10,000 should be returned to the United States if it was estimated that the cost of domestic source end products or services (including transportation and handling costs) would be not more than fifty per cent in excess of the cost of the foreign supplies or services. Subject to the exceptions previously mentioned, requirements where the delivered price from United States sources would not exceed $10,000, were to be procured from United States sources, regardless of the differential. Where the procurement was estimated to exceed $10,000, if the estimated cost differential exceeded fifty per cent, the matter must be referred to the Secretary of Defense.[1]

During the July-September, 1962 period, with the new fifty per cent differential in effect, the military departments reported that $57.6 million of procurement contracts was returned to the United States at an estimated increased cost of $15.3 million or thirty-six per cent.[2]

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[1]Robert S. McNamara, U. S. Office of the Secretary of Defense, Memorandum, Supplies and Services for Use Outside the United States, July 16, 1962.

[2]Hitch, loc. cit.

Balance of Payments Restricted Advertising

Requirements returned to the United States for procurement in the furtherance of the balance of payments programs are considered to be negotiated procurements. The contracts may be entered into by conventional negotiation or by a special method of procurement known as "balance of payments restricted advertising." The latter method is preferred. Balance of payments restricted advertising is conducted in the same manner as prescribed for formal advertising, except that bids and awards are restricted to domestic suppliers and to domestic end products. Each bid must include a certificate substantially as follows:

> To the extent that the Government specifies that the items being purchased are in implementation of the Balance of Payments Program the bidder or offeror hereby certifies that each such end product is a United States end product (as defined in the contract clause entitled United States Products); that components of unknown origin have been considered to have been mined, produced, or manufactured outside the United States; and that he is a domestic supplier.[1]

The "United States Products" clause referred to provides that:

> To the extent that the Government specifies that the items being purchased are in implementation of the Balance of Payments Program, the contractor agrees that there will be delivered under this contract only United States end products. . . . A "United States end product" means (A) an unmanufactured end product which has been mined or produced in the United States, and (B) an end product manufactured in the United States if the

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[1]McNamara, loc. cit.

cost of the components thereof which are mined, produced, or manufactured in the United States exceeds 50% of the cost of all its components.[1]

Assessment of Program's Success

Figure 4 shows that the program to reduce overseas expenditures for equipment and other materials and supplies has been questionably successful, subsequent to 1960. Expenditures in these areas have declined gradually from a high of $1,159 million in 1958, to about $920 million in 1961. The reductions would be somewhat greater, but price increases overseas have substantially offset greater balance of payments gains. On the other hand, had the purchases not been reduced, the higher prices would have caused the balance of payments deficit to have been magnified.[2]

The Defense statistics for "Materials and Supplies" (Figure 5) cannot be reconciled to the Department of Commerce amounts (Figure 4), due to different methods of compilation. Figure 7 is of interest in showing the geographic breakdown of materials and supplies expenditures estimated by the Department of Defense for fiscal year 1963.

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[1] Ibid.

[2] Interview with J. Frank Crow, Budget Analyst, Balance of Payments Division, Budget Directorate of the Office of Assistant Secretary of Defense (Comptroller), March 29, 1963.

[illegible]

[illegible]

Inventory of Inventory's Reports

Figure 4 shows that the industry in general increased inventories for equipment and other materials and decreased the more quantitatively measurable, manufacturing in 1960. Manufacturers in these areas have continued increasing stock a bit or $1,750 million in 1960, to about 800 million in 1961. The conclusions would be somewhat similar for other industrial classes that manufacturing other items besides mining or manufacture goods. On the other hand, has the increase not been remarkable, but higher prices could have caused the values of inventory activity to have been misleading.[1]

The National Industries for Materials and Supplies[2] (Figure 5) seemed to indicate on the importance of Canadian economic [illegible] 5, but in different months of [illegible]. Figure 5 is an inventory in monthly and quarterly [illegible] of activity and supplies expenditures estimated by the Department of Industry for [illegible] year 1961.

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[1] [illegible]

[2] Inventory [illegible] of [illegible] Year, Canada Industry, Balance of Business Statistics, Dominion Bureau of [illegible] of Ministry of Industry (Industrial), Ottawa [illegible], 1960.

FIGURE 7

MATERIALS AND SUPPLIES ESTIMATED EXPENDITURES, FY 1963[a]
(in millions of dollars)

Country	Fuel	Subsistence	Other	Total
Bahrein Islands	$	$ -	$ .1	$
Belgium & Luxembourg		1.3	2.5	
Canada		3.5	12.5	
Denmark & Greenland		11.6	1.7	
France		1.8	33.0	
Germany		12.8	54.7	
Greece			.6	
Iceland		.8	.2	
Indochina		.3	-	
Italy		4.1	5.1	
Japan		12.6	50.0	
Korea		7.8	4.2	
Netherlands		12.9	.4	
Netherlands Antilles		-	-	
Pakistan		-	.1	
Philippines		1.1	2.5	
Ryukyu Islands		4.3	12.0	
Saudi Arabia		-	-	
Spain		.6	3.4	
Thailand		.5	.5	
Trinidad and Tobago		-	-	
Turkey		1.2	8.5	
United Kingdom		3.8	22.0	
Venezuela		-	-	
All Other		3.8	6.2	
Total	$255.0	$ 84.8	$220.2	$560.0

[a]OASD (Comptroller), December 12, 1962.

[b]Less than $50,000.

The efforts to reduce construction costs overseas have been successful (Figures 4 and 5), but the rate of reduction is not as great as it was before the impetus given by President Eisenhower in 1960, to reducing the United States deficit. This slowing is probably due to greater difficulty as the expenditure figure lowers to a "hard" dollar amount.

Contractual Services

Both Figures 4 and 5 show contractual services as being an extremely significant category in terms of dollars, but there appears to be no trend for reduction in this item. The trend has been upwards, if anything, except that the Department of Defense estimates some reduction in fiscal year 1963 (Figure 5). Figure 8 shows how the defense "Contractual Services" is broken down in fiscal year 1963 for travel, transportation, communications, rents, utilities, etc. The category "Foreign Nationals (Direct Hire and Contract Hire)" must also be considered from Figure 5, if any reconciliation of Commerce and Defense statistics is to be approached.

"Contract hire of foreign nationals" means that the employees are contracted for through their parent governments. "Direct hire" means, of course, that the employees are hired directly by the United States military forces which are concerned.

FIGURE 8

CONTRACTUAL SERVICES ESTIMATED EXPENDITURES, FY 1963[a]
(millions of dollars)

Country	Travel	Transportation	Communications, Rents & Utilities	Other (Repairs, Alterations, Maintenance, etc.)	Total
Belgium and Luxembourg	$ .1	$ .4	$ .3	$ 3.4	$ 4.2
Canada	2.3	3.0	13.5	18.7	37.5
Denmark and Greenland	1.0	b	.1	.9	2.0
France	8.9	4.8	11.7	26.9	52.3
Germany	18.0	16.9	38.0	58.2	131.1
Greece	.6	.2	.3	1.3	2.4
Iceland	.2	.2	.3	1.6	2.3
Indochina	.8	-	.3	2.8	3.9
Italy	1.5	.6	3.2	5.5	10.8
Japan	8.1	3.1	16.4	36.3	63.9
Korea	1.9	3.9	3.2	15.9	24.9
Netherlands	.2	1.2	.2	3.4	5.0
Pakistan	.4	.2	.3	.3	1.2
Philippines	2.7	.9	1.1	4.3	9.0
Ryukyu Island	4.2	.6	6.8	5.2	16.8
Saudi Arabia	.1	-	-	.3	.4
Spain	2.4	.9	3.4	7.9	14.6
Thailand	.4	-	.2	1.2	1.8
Turkey	7.3	1.7	1.4	8.8	19.2
United Kingdom	4.3	3.1	9.7	24.2	41.3
All Other	6.6	1.2	2.0	15.6	25.4
Total	$72.0	$42.9	$112.4	$242.7	$470.0

[a]OASD (Comptroller), December 12, 1962.

[b]Less than $50,000.

TABLE 3

CONTRACTUAL SERVICES EXPENDITURES, BY [illegible]
(Millions of dollars)

Country	Imports	Transport-ation	Commodity, material, repair & operations	Other (Insurance, advertis-ing, [illegible])	Total
Belgium and Luxembourg	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canada	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark and Greenland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Greece	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Iceland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Korea	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portugal	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Turkey	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
United States	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Other Europe	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Other Asia	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Africa	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oceania	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Other	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

*Also [illegible], December 31, 1960.

*See [illegible].

Figure 9 shows that there are about two and one-half times as many foreign nationals under contract hire as under direct hire. Substantially all foreign nationals employed in France, Germany, and Japan are under contract hire.

If adjustment were made for calendar/fiscal year, the Commerce Contractual Services (Figure 4) would equal the total of Foreign Nationals and Contractual Services from the defense statistics (Figure 5), except that Commerce includes the direct hire of foreign nationals in the category "Expenditures by Troops, Related Civilian Personnel, and Post Exchanges."

The hire of foreign nationals seems to be upwards in dollars, but the increasing amount is more attributable to wage increases than to any increase in numbers. If the total expenditures for contractual services (including hire of foreign nationals) is to be kept from increasing, the number of foreign nationals employed will have to be reduced. Hire of more dependents of United States personnel reduces drain on United States dollars, but often the number of foreign nationals employed is based on long-standing governmental agreements which cannot be changed easily.

Military Assistance Program

In December of 1960, the Department of Defense issued instructions to the unified commands to review the Military Assistance Program in their areas and to recommend adjustments

FIGURE 9

ESTIMATED EXPENDITURES FOR DIRECT AND CONTRACT HIRE OF FOREIGN NATIONALS[a]
FY 1963

Country	Number of Personnel (thousands)		Approximate Cost (millions)
	Direct Hire	Contract Hire	
Canada	3.3	b	$15.0
France	1.6	22.6	56.0
Germany	.2	81.1	177.0
Italy	4.3	-	8.0
Japan	.2	53.4	61.0
Korea	20.8	6.2	24.0
Philippines	10.0	-	17.0
Ryukyu Islands	15.1	-	9.0
Spain	3.3	-	3.0
United Kingdom	.5	3.3	10.0
Other Countries	9.9	3.6	20.0
Total	69.2	170.2	$400.0

[a]OASD (Comptroller), December 12, 1962.

[b]Less than 100.

[illegible]

[illegible]

[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
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[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]

[illegible] (mimeographed), [illegible] 32, [illegible].

[illegible] [illegible].

that would lead to a reduction of dollar expenditures abroad in calendar year 1961. These reductions were to be through deletion or deferral of requirements, or of transfer of sources of supply. Recommendations for changes were to be limited to adjustments which would not increase costs to the Department of Defense by more than the twenty-five per cent differential contained in the Department of Defense memorandum of December, 1960, relating to overseas supply and service contracts.[1]

Legislative Limitations

Recognizing that overseas expenditures could be economically damaging to the United States, the Congress required that the funds made available under the Foreign Assistance Act of 1961, could be spent outside the United States only if the President determined that the procurement would not result in adverse effects upon the economy of the United States, particularly with respect to the balance of payments problem. The act indicated that the considerations of such a problem might ". . . outweigh the economic or other advantages to the United States of less costly procurement outside the United States, . . ."[2]

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[1]Douglas, op. cit.

[2]75 Stat. 439 (1961), 22 U.S.C. 2354 (a) (Supp III, 1958).

[illegible]

[illegible], op. cit.

[illegible]

Executive Determination and Actions

On October 18, 1961, the President determined that the Military Assistance Program funds could be used only to procure items which are not produced in the United States, to make local purchases for administrative purposes, or for purchases where the Secretary of Defense determined that not purchasing overseas ". . . would seriously impede attainment of military assistance program objectives, . . ."[1]

Implementing this Congressional action and the President's determination, the Department of Defense issued a directive that the Assistant Secretary of Defense (ISA), after making the required certification, could authorize overseas Military Assistance Program procurements for the following purposes:

1. Government-to-Government cost-sharing projects under the Mutual Weapons Development Program.
2. Government-to-Government commitments involving cost-sharing production projects, when MAP/OSP is an integral part of the cost-sharing commitment.
3. Procurement required to support overriding foreign policy objectives as approved by the Secretary of State.
4. Procurement required to support overriding military logistical considerations which are important to the defensive capability of the Free World.[2]

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[1]John F. Kennedy, Memorandum of October 18, 1961, "Determination Under Section 604(a) of the Foreign Assistance Act of 1961," Code of Federal Regulations, Supp. to Title 3--The President (1961), pp. 146-147.

[2]Roswell Gilpatrick, DOD Inst. 2125.1, Military Assistance Program Offshore Procurement (MAP/OSP), January 2, 1962.

The Directive further provided that foreign currencies owned by the United States will be used to the maximum extent practicable in implementing approved Military Assistance purchases. In September of 1962, the United States Treasury held excess foreign currency in the following listed countries:

Burma	Poland
India	Syrian Arab Republic
Indonesia	Egypt
Israel	Yugoslavia[1]
Pakistan	

Assessment of Program's Success

The Department of Commerce statistics show a continuing reduction in Military Assistance Program expenditures (Figure 4). The Department of Defense also indicates a downward trend, but includes the NATO infrastructure and other expenditures in its categorization (Figure 5). The two departments' statistics cannot be completely reconciled because of the calendar versus fiscal year conflict and differing definitions of the several categories. Figure 4 shows the NATO infrastructure as "Contributions to the NATO Multilateral Construction Program." This category is generally atrophying with the completion of bases and changes in the overall deterrent strategy concepts. Figure 10 shows the breakdown of the defense "Other" category and supports the estimated fiscal year 1963 defense budget for Military Assistance on Figure 5.

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[1]Robert S. McNamara, U. S. Office of the Secretary of Defense, Memorandum, Supplies and Services for Use Outside the United States, September 12, 1962.

FIGURE 10

ESTIMATED MILITARY ASSISTANCE EXPENDITURES[a]
(Fiscal Year 1963)

	(Millions)
Military Assistance Offshore Procurement	$106.3
Mutual Weapons Development Program	6.1
Weapons Production Program	4.7
NATO Infrastructure	87.0
Other (Administration of MAAG's, Construction, Travel, Repair and Rehabilitation of Facilities, etc.)	66.7
TOTAL	$270.8

[a]OASD (Comptroller), December 12, 1962.

Receipts

The "Military Expenditures" amounts shown in Figure 1 are the gross amounts of military expenditures. In order to arrive at the net amount of military expenditures--the amount used by the Department of Defense in determining their success in fighting the balance of payments deficit and in determining future goals--it is necessary to reduce this amount by a category which defense calls "receipts." Through 1961, these receipts were almost exactly equivalent to the caption "Military Transactions," a category which has always had a favorable effect upon the balance of payments (Figure 1). Military Transactions are based on an "actual deliveries" basis.

In calendar year 1962, the $0.6 billion shown for Military Transactions in Figure 1 appears to be grossly out of line with the much larger receipts figure shown for fiscal years 1962 or 1963 in Figure 5. This is because the Department of Defense uses the "payments basis" for their computations, as opposed to the deliveries basis. This situation caused no differences until calendar year 1962, the year in which the agreements with Germany and Italy, which will be described in the next two paragraphs, were negotiated. In Figure 1, the amount necessary to adjust the deliveries basis to the payments basis is included in the caption "Foreign Long-Term Capital, Net." Actual adjustment is not possible because of the conflict of fiscal versus calendar years. The preliminary actual receipts for

Analysis

The "military industrial" budget, shown in Figure 1 and the gross budgets of military departments, is given to Congress at the end month of military fiscal year—the budget sent by the Department of Defense in January with requests to Congress for balance of January actual and to February fiscal year—is in reality an annual bill sent by a military voice desiring their "problems." Thereby 1961, based upon the above annual budget supplement to the budget, "military industrial," a category which has always had a powerful voice for balance of payments (Figure 2). Military investigations are based on an "annual initiative" basis.

In January 1970, the U.S. citizens among the military investigations in Figure 3 appears to be already out of line with the much larger domestic figure since the fiscal years 1962 to 1967 in Figure 3. This is primary for investments of Defense over the "Defense basis" for short investigations, as opposed to the initiative basis. This situation leaves no alternatives until mid-year 1969, the year in which the statements also appear out of line, which is attributed to the best the investigations, more investigations. In Figure 3, the market economy is higher the military basis so the problems basis is included in the budget the budgets "Vietnam Cost-Plus Pricing, 1969." Actual expenditure 1: the basis is because of the quality of first human capacity plans. The investigation actual investigations for

calendar year 1962, on a payments basis, was $1.094 billion.[1]

The Department of Defense is taking steps to encourage the allies of the United States to increase their procurements of United States military equipment and services. The Federal Republic of Germany, the recipient of the greatest outflow of defense dollars, has agreed to increase its purchases (Figure 6). The present agreement extends through calendar year 1964, and provides for a cooperative logistic system for the armed forces of both countries. Additionally, the Federal Republic of Germany has agreed to increase its military procurement in the United States and to utilize American depots, supply lines, and maintenance and support facilities.[2]

Italy has agreed to purchase $100 million of military equipment from the United States to help offset foreign exchange costs in that country. Similar arrangements are being discussed with a number of other countries. This approach of increasing receipts offers one of the most equitable ways of reducing further the net foreign exchange cost of having American forces stationed overseas.[3]

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[1]Lederer, "The Balance of International Payments . . . ," p. 20.

[2]Hitch, loc. cit., p. 53.

[3]Ibid., p. 54.

Other Actions and Future Intentions

The Secretary of Defense has made the following statement relative to the goal for future United States net Defense expenditures:

> Our objective is to reduce the Department of Defense net adverse dollar outflow entering the international balance of payments to $1 billion by fiscal year 1966. This objective is to be achieved without reducing our combat effectiveness abroad or creating hardship for the individual serviceman or his dependents.[1]

In order to achieve this objective, a long-range program has been initiated to reduce further the net outflow of dollars resulting from Defense programs. First, "Revised Project Eight," consisting of over 60 separate projects and studies, has been established to minimize expenditures and to maximize receipts entering into the international balance of payments. The list must be classified since it is concerned with future military force levels and international, politically sensitive considerations, but Figure 11 details twelve typical studies.

Second, separate organizational components have been established in the Offices of the Assistant Secretaries of Defense for Installations and Logistics, International Security Affairs, and Comptroller, specifically to facilitate the defense

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[1]Robert S. McNamara, Statement by Secretary of Defense Robert S. McNamara at Press Conference on July 16, 1962, p. 2.

Peace Actions and Action Institutions

The Secretary of Defense has said, the following statement relating to his goal for Saigon United States and Defense organizations:

> The objective is to assure the Government of Vietnam and Joint Chiefs which accompany the International Commission of Supervision as it utilizes by Tuesday, June 1968. This objective is to be achieved without causing our social effectiveness across or creating conditions for the unofficial activities or air activities.[1]

To avoid so anxiety this objective, a longer-range program was then initiated to assure further the non existence of bases resulting from Defense economy. Then, "private inquiry right," consisting of over 60 separate projects and studies, had been established to develop arrangements and to measure equipment activities into the international volume of payments. The list was so classified since it is concerned with future military issue jungle and international, politically sensitive conditions, and things it contain veiled typical studies.

Hence, separate organizational components have this responsibility in the efforts of the research investigation of areas the instructions and objectives, international security, civilian and economic, specifically to facilitate the future

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[1] Robert S. Gemmery, Statement to Secretary of Defense Robert S. Gemmery, Statement to Joint Committee on Atomic Energy, p. 47.

FIGURE 11

PROJECT LIST RELATING TO STUDIES BEING MADE FOR THE PURPOSE OF REDUCING DOLLAR EXPENDITURES ABROAD RESULTING FROM U. S. DEFENSE ACTIVITIES[a]

1. Investigate modification in overseas post exchange operations with a view to further increasing the purchase of U. S. goods.

   a. Establish U. S. brokerage service concessions at selected military installations to promote savings and investments.
   b. Consider improvement of merchandising by nonappropriated fund activities and facilities, including quality of products sold, to encourage patronage.
   c. Investigate the adequacy of maintenance facilities available for servicing U. S. manufactured autos, availability of spare parts, and make recommendations for required corrective action.

2. Review the use of foreign nationals as employees at our overseas military installations to determine whether requirements can be reduced without interfering with our combat and support capability.

3. Develop a program to reduce by 66% the foreign exchange cost of the FY 1963 construction program (including a 66% reduction in the foreign exchange cost of the overseas family housing program).

4. Develop a program to reduce subsistence purchases overseas by 50%.

5. Develop a program to reduce the $240 million estimated expenditures for miscellaneous materials and supplies procured overseas by 50%.

6. Reduction in Expenditures Overseas for Contractual Services.

   a. Develop a program to reduce the estimated $270 million annual outlays for overseas repairs, alterations, maintenance, etc., by 25%.
   b. Develop a program for reimbursement to the U. S. for training support provided to NATO countries.
   c. Consider the possibility of purchasing from other NATO nations support for U. S. combat troops in Europe in place of retaining U. S. support troops in Europe for that purpose.

7. Review of Military Assistance Program.

   a. Review FY 1963 Military Assistance Program with a view to reducing overseas procurement of equipment, supplies and services, including construction, by at least 50%.

Article 11

(Notify that relating to activities which form part of the process of supplying goods, commodities, energy, industrial and U. S. Defense Articles)

1. Investigate modernization in preparation and strategic operations with a view to further improving the performance of U. S. Guard.

2. Establish U. S. production facility capacities as relative military capabilities to produce military and transportation.
   a. Conduct improvements of organizations to accomplishing food activities and facilities, including quality of product mix, to economic efficiency.
   b. Investigate the adequacy of maintenance facilities available for servicing U. S. commercial ships, availability of spare parts, and make recommendations for capital improvements.

3. Review the use of Trusts assistance as relates to strategic industry investment in research and development and to obtain vital industrial activity and cost support capability.

4. Develop a program to reduce or eliminate the foreign economic gap of the U. S. economic growth rate (including a 20% reduction in the growth economic cost of the overseas family housing program).

5. Develop a program to reduce substantial personnel overlap in DOD.

6. Develop a program to reduce the U.S. military expenditures for disadvantageous materials and supplies purchased overseas by DOD.

8. Activate in commissary stores for commercial services.

9. Develop a program to reduce the accumulated life-cycle costs caused by personnel turnover, relocations, separations, etc., by DOD.
   a. Develop a program for implementation in the U. S. for training country products to meet needs.
   b. Consider the possibility of purchasing from other nations country for U. S. foreign trade in place of production. c. Support issues in Defense the best program.

10. Review of military assistance program.

11. Review of the military assistance program with a view to reducing overseas procurement of equipment, supplies and services, including overseas, by at least 30%.

b. Develop plans leading toward a reduction in:
   (1) U. S. share of NATO infrastructure payments.
   (2) Contributions to NATO International Headquarters.
   (3) Other cost sharing arrangement, e.g., NATO Pipeline System.

c. Develop a plan for host countries to assume a greater share of administrative and support cost of MAAG's.

8. Develop a program for expanding the present credit sales program in order to further offset defense expenditures overseas.

9. Discuss with other countries methods for offsetting foreign exchange costs of maintaining U. S. forces in the countries concerned.

10. Develop and present in the form of a standardized quarterly financial report a Five-Year Program for U. S. defense expenditures and receipts entering the international balance of payments - (initial report to cover FY 1961-1968).

11. Review requirements for headquarters organizations overseas with a view towards reduction of the number of such headquarters (including elimination of any overlapping) and the personnel assigned.

12. Develop techniques and procedures for a balance of payments budget.

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[a]Robert S. McNamara, Statement by Secretary of Defense Robert S. McNamara at Press Conference on July 16, 1962, enclosure.

efforts in the balance of payments area.[1]

Third, the Department of Defense, along with other government agencies, is collecting and reporting both actual and projected data on its international transactions to the Bureau of the Budget. This "gold budget," as it is sometimes called, will permit the preparation of all-inclusive government estimates of future foreign exchange needs of the federal sector and be of value to United States fiscal and monetary policymakers.[2]

Last, the fiscal year 1964 defense budget which the President sent to Congress in January, 1963, for the first time was reviewed not only for the budgetary aspects of the service requests, but also for their foreign exchange costs.[3]

The Clay Foreign Aid Report concurred with the Defense objective and reasonability of reducing net defense expenditures overseas to $1 billion. However, the report indicated that such a reduction might be possible more quickly than estimated by the Department of Defense. The report stated that "We are convinced that . . . U. S. security interests will require maintaining our military assistance program for some years to come, . . ." In consideration of the inherent risks of too rapid action, a reduction phasing period of three years was

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[1]Hitch, loc. cit., p. 54.

[2]Ibid.

[3]Ibid., p. 55

efforts in the business of industry area.[1]

Thus, the Department of Defense, along with other governmental agencies, is collecting and requiring job bonus and monetary data on its industrial contractors in the hopes of the future. This "just watch," or in its more civilized, will permit the preservation of administrative personnel activities of future foreign military sales or the future and be of value to United States firms doing not necessary [illegible].[2]

Lastly, the Federal Port Labor Control Board which has jurisdiction over the operation in Southern Ohio, for the first time has requested the data the job activity expenses of the service requests, [illegible] for their foreign assembly work.[3]

The Ohio Department has mixed sentiments with the Defense objective and responsibility of providing for national mobilization purposes in it within. However, the report indicated that such a [illegible] might be possible were minority work requested by the Department of Defense. The report stated that "the [illegible] . . . is to monitor industry requests will require [illegible] the minority [illegible] for those jobs to [illegible] . . . " in accordance of the [illegible] plans of the [illegible] [illegible] [illegible] [illegible] [illegible]

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[1] [illegible], [illegible], [illegible]

[2] [illegible]

[3] [illegible], p. [illegible]

recommended.[1]

Subsequent to the publishing of the Clay Report, Secretary of Defense McNamara, testifying before the House Foreign Affairs Committee, urged that the $1.4 billion budget requested for fiscal year 1964 for foreign expenditures not be cut. He pointed out the gross national product of $550 billion and said that there should be no stinting on actions concerning the national security. If any budget-cutting had to be done, he requested that it be done in other, less critical areas of the $53.5 billion Defense budget.[2] If the foreign expenditures budget of $1.4 billion can be obtained and adhered to, this will represent another favorable step towards the $1 billion goal (Figure 5 estimated $1.6 billion expenditures for fiscal year 1963).

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[1] The Washington Post, loc. cit.

[2] Ibid., April 9, 1963, p. A5.

[illegible]

Valdivieso on the profitability of the Chat Mayro.

Secretary of Mines Gonzalez, realizing either the lack [illegible] conditions, urged that the $1.5 million [illegible] requested for fiscal year 1970 for further exploration not be [illegible]. He pointed out the great national product of $[illegible] million and that this could be in jeopardy if exploration [illegible] the mining industry. If the [illegible] and it is [illegible] to be done in order, some [illegible] of the $[illegible] million [illegible].[1] If the [illegible] expenditures [illegible] of $[illegible] million can be obtained any [illegible] by, this will [illegible] [illegible] $1 million [illegible] $1 million [illegible] [illegible] 1970).

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[1]The Santiago Times, [illegible].

[2]Ibid., April 9, 1967, p. 44.

CHAPTER IV

CONCLUSIONS

Using data available in Figure 1,[1] for the years 1953-1961, and from pages 58-59 for 1962, the following summary of the net effect of defense expenditures overseas can be derived:

(in $000,000,000)

Calendar Year	Military Expenditures	Less: Receipts	Net Military Expenditures
1953	$2.5	$0.2	$2.3
1954	2.6	0.2	2.4
1955	2.8	0.2	2.6
1956	3.0	0.2	2.8
1957	3.2	0.4	2.8
1958	3.4	0.3	3.1
1959	3.1	0.3	2.8
1960	3.0	0.3	2.7
1961	3.0	0.4	2.6
1962	3.0	1.1	1.9

It is apparent that progress has been made by the Department of Defense subsequent to the peak post-war year of 1958, but the substantial drop in 1962 must be viewed with some skepticism. The drop was substantially attributable to the agreements with Germany and Italy. It is not possible to predict whether the assistance will be so material after 1962. If

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[1] Supra, p. 5.

CHAPTER IV

CONCLUSIONS

Using data available in Figure 1,[2] for the years 1919-1921, and from years 20-21 to 1931, the following summary of the net effect of defense expenditures previous and by derived

(in [illegible])

Calendar Year	Military Expenditures	Other Expenditures	Net Military Expenditures
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]

It is important that [illegible] made by the [illegible] of Italian [illegible] to [illegible] year of 1929, but the [illegible] that is 1931 must be viewed with some [illegible]. The [illegible] was [illegible] to the [illegible] with Germany and Italy. It is not possible to predict [illegible] will be [illegible] after 1933. If

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[2] [illegible] p. [illegible]

agreements can be reached with other countries to increase their purchases of defense materials from the United States, perhaps any decreases in Germany's and Italy's assistance can be offset.

It is very likely that savings in the procurement area are reaching a floor below which further reductions will be extremely difficult. This conclusion is based on the large differentials already being paid in order to consummate the maximum volume of purchases in the United States rather than abroad. To increase the differential above a fifty per cent level would seem to be inconsistent with other efforts currently being made to decrease government expenditures as much as possible. Construction, both NATO and other, would appear to be the only procurement area where continued reductions should be possible.

Practically all other expenditures would appear to have to remain substantially constant, so long as present force levels overseas are maintained, and so long as dependents are permitted to accompany defense personnel to overseas posts. Since the return of dependents has already been tried unsuccessfully, an actual reduction of United States overseas forces is the only way in which significant additional reductions in expenditures can be made. The overseas expenditures, both personal and official, are actually likely to start to creep back upwards because of rising costs, unless some continued personnel reductions can be achieved.

If the Department of Defense goal of $1.0 billion net overseas expenditures in fiscal year 1966 is to be met, it will be met only by substantial increases in the agreements such as has been reached with Germany, by reducing United States forces overseas, or by some combination of these two means. Achievement of the $1.0 goal would reduce the overall deficit to a point somewhere between $1.0 and $2.0 billion, the closest to a balance since 1957. Thus, although the Department of Defense cannot single-handedly solve the problem, its contribution to the solution would be substantial.

The Department of Defense knows with reasonable accuracy what effect its expenditures have on the balance of payments position of the United States. Definitive corrective steps have been taken, and a definitive goal has been established. The efficacy of these actions in achieving the goal remains to be demonstrated.

If the importance of Belmont coal of 110 million net
tonnage expenditure in fiscal year 1961 is to be met, it will
be not only to considerable increase in the expenditure that is
has been taken with delay, by reducing other State sector
expenditure, or by some combination of these two ways. Unfortunately
if the ILO goal would reduce the overall deficit to a point
somewhere between 0.5 and 1.0 million, the change to a
balance since 1961. Now, although the importance of Belmont
second electro-mobility which the problem, its association to the
activities could be considerable.

The development of Belmont Lower plan presumably motivated
much effort; the supplementary data on the balance of payments
position of the United States. Artificial contracts which make
that state, not a definitive goal has been established. The
efficacy of these notions in analyzing the goal results to be
demonstrated.

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